DO MULTIPLE LARGE SHAREHOLDERS AFFECT FINANCING AND OPERATING STRATEGIES, AND FIRM PERFORMANCE: TEEN-AGING OF EAST ASIAN OWNERS

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ABSTRACT

We investigate how the evolution of ownership structure affects corporate financial and operating performance and corporate strategies. In particular, we study whether the shift in control rights away from the dominant shareholder mitigates agency problems and accordingly expropriation of minority investors by the controlling shareholder. More specifically, does the increase in power of the second large shareholder manifest in the firm's operating and financial performance, and financing and operating strategies? Using ownership data for 1996 and 2008 representing 403 firms from nine East Asian countries, we find strong and robust evidence that the change in the voting rights of the second largest shareholder over these twelve years is associated with higher firm valuation, better operating performance, better access to long term financing, more efficient operation management strategies and a higher dividend payout ratio. Consistent with prior literature that finds multiple large shareholders play an internal governance role and mitigate agency problems, our findings imply that an increase in the voting rights of the second large shareholder improves firm's corporate governance and mitigates agency problems consequently increasing firm performance and improving strategies.

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1. Introduction

A growing body of work has sought to understand the effects of ownership structures on corporate governance and agency issues. Literature has documented that firms with bad corporate governance have severe agency problems which lead to a lower firm value (Gompers et al., 2003; Bebchuck et al., 2009). Majority of studies in ownership structures to date have focused on two types of ownership structures: with 100% dispersed ownership (widely-held firms) and with a dominant controlling shareholder with a number of small shareholders (Shleifer and Vishny, 1997; Laeven and Levine, 2008). In the first case, dispersed small owners have little incentives to monitor as their share in the firm's cash flows is relatively small compared to the cost of private monitoring and little ability to monitor managers because of insufficient votes to exert individual influence in the election of directors. Therefore, in the dispersed ownership firms the manager has substantial power in firm's decision making process and to extract private benefits at the cost of shareholders. This raises the conflicts of interest between the manager and dispersed shareholders, which are often refereed as type 1 agency problems. In such situations level of expropriation of firms resources by manager largely depends on external governance environment, poor investor protection environments experiencing greater expropriation of firms resources by managers. Therefore, when external governance is weak, literature suggests (e.g. Morck et al., 2005: Burkhart et al., 2003) that this inability of dispersed shareholders to monitor managers makes the existence of a controlling blocks economically beneficial. Therefore, the second situation that,, there exists one dominant shareholder who holds the control of the firm, where this large shareholder can either run the business himself/herself or designate a professional manager, thus internalizing the benefits from monitoring the manager (Laeven and Levine, 2008) and creating firm value.. However, the existence of the controlling shareholder is a double-edged sword. On one hand, the significant cash flow rights of the controlling shareholder gives him/her incentives to monitor the behaviour of the manager, mitigate agency problems existed in dispersed ownership corporations, increase the likelihood of a takeover (Shleifer and Vishny, 1986) and enhance earnings informativeness (Boubaker and Sami, 2011), which is consistent with the *incentive effect* (La Porta el al, 2002; Shleifer and Vishny, 1986). On the other hand, the controlling blockholder with significant controlling power also gains the power to expropriate minority shareholders, incentives to expropriate increase especially when s/he holds voting rights in excess of cash flow rights. The

significant control in the hand of the dominant shareholder with limited cash flow rights increases the likelihood of extraction of private benefits by the dominant shareholders, consequently decreasing firm value and earnings informativeness (Grossman and Hart, 1988; Boubaker and Sami, 2011), reducing the credibility of firms' accounting information (Fan and Wong, 2002), increasing the cost of capital (Guedhami and Mishra, 2009), reducing the pace of innovation (Morck et al., 2005), and impede the initiative of the manager if monitored by the controlling shareholder inadequately (Burkart et al., 1997). In summary, this creates type 2 agency problems involving conflicts of interest between the dominant shareholder and minority shareholders, which is consistent with the *entrenchment effect* (Claessens et al., 2002; Guedhami and Mishra, 2009).

Both types of agency problems have been extensively studied in the literature. However, the focus of ownership concentration has been shifted from the conflicts of interest between managers and small shareholders in dispersed corporations to the agency problems between the dominant shareholder and minority investors in concentrated ownership firms, especially in countries where legal institutions are relatively weak (Guedhami and Mishra, 2009; Maury and Pajuste, 2005). Indeed, except for a few developed countries like US and UK, the excess control is widely reported in the modern literature, especially in Western European and East Asian countries with relatively weak investor protection which make the expropriation corporate resources more severe. La Porta et al. (2000) find that a strong investor protection makes expropriation less efficient, which is beneficial for corporate governance and the ownership structure tend to be more dispersed.

Despite a large body of research on the corporate governance role and firm value effects of the single controlling shareholder, literature largely overlooks the potential role of other large shareholders (MLS) in shaping firms' internal governance environments and potential expropriation of the firm's resources. Yet, Faccio and Lang (2002), Claessens et al. (2000), Carney and Child (2012) and La Porta et al. (1999) have shown the popularity of multiple large shareholders around the world, especially in East Asian and Western European countries. Recent theoretical and empirical studies have found both positive and negative effects of MLS on firm-level governance. On one hand, MLS with substantial voting powers have the incentives and ability to monitor the largest shareholder and therefore can reduce the expropriation of minority

shareholders and improve the firm's governance environment (Shleifer and Vishny, 1986, 1997; Pagano and Röell, 1998). This literature also suggests that in order to gain more control of the firms, MLS compete to win the control contests. Therefore, MLS will support (object) to those optimal (poor) investments, which could be beneficial (harmful) to the interests of minority shareholders, to gain the voting from them (Bloch and Hege, 2001; Bennedsen and Wolfenzon, 2000). Thus, MLS shift the benefits towards minority shareholders, which in turn mitigate agency problems. Furthermore, Edmans and Manso (2011) report that even if MLS might be subjected to free-rider problems, it improves firm-level governance through a mechanism of *trading* i.e., "*voting with their feet*". MLS may trade aggressively on private information, which in turn impounds private information into stock price consequently reducing information asymmetry. This mechanism disciplines the manager and forces them not to invest in sub-optimal projects. Moreover, Dhillon and Rossetto (2009) propose that MLS may arise in order to gain enough power to influence the voting outcome towards higher risk investments at the expense of the loss in diversification. As a consequence, such influence of MLS shifts the benefits towards dispersed shareholders and enhances firm value. On the other hand, MLS can form a controlling coalition to pursue and share the diverted private benefits (Gomes and Novaes, 2001; Zwiebel, 1995; Winton, 1993). These roles of MLS shed some light on corporate governance mechanisms, but also add more complexity to the traditional agency conflicts. Given the divergence of perspectives on the role of MLS, whether MLS has a positive impact on mitigating agency problems and enhancing internal governance is still an empirical question, which we test in this paper.

Following Attig et al. (2009) which finds that the concentrated ownership and the existence of MLS in nine East Asian countries[1] is widespread and these countries are considered to have a relatively weak legal institutions and more severe agency conflicts, this thesis focuses on these nine countries and investigates if long term shift in voting power away from the dominant shareholders measured by the change in voting rights of the second large shareholder, has a positive effect on mitigating agency problems and increasing firm value. The thesis also

[1]Nine East Asian countries include: Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

examines the channels through which this shift in power towards the second largest shareholder helps improve firm value.

We compile a dataset consisting of 403 firms from nine East Asian countries that have ownership data for 1996 in Claessens et al. (2000) and for 2008 in Carney and Child (2008). These studies compute ownership and control for up to 5 ultimate large shareholders of the firms. Using these ownership datasets we compute the change in voting rights of the dominant shareholder and the second large shareholder from 1996 to 2008. We consider an increase (decrease) in the voting rights of the second large (dominant) shareholder as the shift in power away from the dominant shareholder. In other words, the firms that exhibit increase in voting rights of the second large shareholder are considered to have gained power for the second large shareholder to contest the power of the dominant shareholder. Using this dataset, we find that the change in voting rights of the second large shareholder (shift in power away from the dominant shareholder) from 1996 to 2008 has a significantly positive impact on firm valuation (Tobin's Q) and operating performance (ROA and ROE), which suggests that the shift in power towards the second large shareholder (away from the dominant shareholder) mitigates agency problems and improves firm performance. Furthermore, we investigate possible channels through which MLS can play a positive role on firm performance. First, we find that firms featuring an increase in power towards the second large shareholder tend to have more long term debt and less short term debt, plausibly because MLS mitigate agency problems and improve information quality which results in a lower cost of long term financing and improved access to long term finance. Second, we note that the firms experiencing increase in the power of second large shareholder feature a better operation management. Specifically, an increase of the voting rights of the second large shareholder is associated with a decrease in the proportion of inventory in the balance sheet, which implies that the shift in power towards the second large shareholder can increase the efficiency of operation management, which leads to a better firm performance. Third, we find that firms experiencing increase in the voting power of second large shareholder have a higher dividends payout ratio, suggesting lack of desire to pile up unproductive cash or potentially build empire with shareholders' money.

While our desire is to examine how the firms experiencing a long term shift in power towards the second largest shareholder perform compared to their counterparts experiencing otherwise, because the timing of the measurement of shift in power overlaps the time in which we measure

dependent variables, our tests are suspect for endogeneity bias. We address these endogeneity biases in two ways. First, we use the dependent variables measured subsequent to 2008, while our key test variables are measured over 1996 to 2008 and find that our results remain practically the same. Second, we use the industry-country average change in voting rights of the second large shareholder as the proxy of the shift in power away from the dominant shareholder and find that our results practically remain the same. We believe these tests help alleviate endogeneity concern embedded in the selection of the test environment in this study.

Our empirical results are related to previous literature in the following ways. First, our study is related to Maury and Pajuste (2005) as we also find the positive effect of MLS on firm value and operating performance. However, this thesis is different from Maury and Pajuste (2005) in that we study the effect of the *evolution of the power of MLS* (in particular shift in power away from the dominant shareholder) on firm value and operating performance. Second, our study is related to Attig et al. (2008), as we also argue that MLS is associated with a lower financing cost. Our study is different from Attig et al. (2008) in that we pay more attention to the effect of MLS on firm's access to long-term debt financing and on evolution of the power of MLS over a decade. Third, our paper is consistent with Lin et al. (2013) which suggest that firms with less monitoring needs should rely more on public debt which typically have longer maturity than bank debt. Given that firms featuring shift in power towards MLS (away from the dominant shareholder) have lower agency costs, better internal governance, lower information asymmetry and better earnings informativeness, such firms have less monitoring needs thus better access to public debt suggesting less reliance on bank debt. Fourth, our paper is related to McNaughton et al. (2001) who show inventory as an important channel to attract new customers, shorten sales cycles, and increase earnings and profitability, which therefore create value for the owners of the firm. Our results demonstrate that an increase in voting power of the second large shareholder is associated with a lower inventory, indicating that MLS can enhance firm performance through more efficient operation management strategies.

The rest of our paper proceeds as follows. Section 2 presents literature review regarding the traditional ownership structure, corporate governance mechanisms, and the effect of multiple large shareholders on firm value. Section 3 describes the hypotheses developments and related literature. Section 4 defines our data construction, methodology, and variable specifications.

Section 5 discusses our empirical results. Section 6 and Section 7 presents the robustness tests and conclusion.

2. Literature Review

2.1 Agency Problems, Corporate Governance and Ownership Structure

A large string of traditional corporate finance theory in its ideal form presumes a public company with dispersed ownership, where the firm is controlled by the board elected by shareholders with ownership of a meaningfully small fraction of the company's equity capital. For example, Berle and Means (1932) document that in many large corporations of US ownership structures are mainly dispersed among small shareholders, while firms are managed by professionals who do not have much aligned interest with atomistic shareholders. In this type of companies, managers, including board of directors act as agents of dispersed shareholders to manage the firm on the latter's behalf, while the latter does not have enough power to monitor the manager's activities. Fama and Jensen (1983) document that the benefits of widely held firms are that in firms especially those which are large and complex, there is a huge demand for wealth to be invested by residual claimants to implement more optimal projects, therefore each residual claimant or shareholder is able to hold only a small piece of *pie* and does not have the ability to control the firm and monitor the manager's behaviours. In this situation, it is less costly to delegate the control to other professional agents whose managerial skills are not closely tied to firm's risk and wealth. Moreover, the diffuse ownership structure *lowers the cost of risk-bearing services* and therefore *enhances the adaptability of a complex organization to changes in the economic environment* (Fama and Jensen, 1983, p.312). Although there are benefits within widely held corporations, this form of organization gives raise to conflicts of interests (agency problems) between managers and ultimate owners (dispersed shareholders), where ownership is totally separated from the control of the firm. Therefore, the manager has the incentives to expropriate the benefits of small shareholders and pursues his/her private interests, causing the firm to undertake sub-optimal investment projects and reducing firm value, especially when the manager holds little equity of the firm (Morck et al., 2005). Empire building is a typical example where the manager undertakes less risky projects and pursues more diversifications of the firm so that s/he can guarantee his/her long-lasting job. However, such ideal form of public companies is limited around the world, including even the developed countries like the U.S. and Canada.

A large number of public companies around the world feature a dominant shareholder holding votes enough to elect a controlling board of directors. Such large shareholder may choose to

either run the business himself/herself or hire a professional manager. The controlling shareholders may be individuals, families, states, or institutions, which may gain controlling stakes either directly or through controlling enhancing mechanisms such as pyramid structures, dual class shares, or cross-holdings (Claessens et al., 2002). This form of ownership structures in public companies mitigate the first type of agency problems (i.e. between managers and shareholders) by alleviating expropriation of a firm's resources by managers. Demsetz (1983) argues that even though there is no separation of ownership and control, the value of owners' assets can still be maximized. Specifically, he argues that "*it is equally unreasonable to suppose that potentially valuable assets will not be controlled effectively by some groups of owners"* (Demsetz, 1983). Consistent with Demsetz (1983), Shleifer and Vishny (1986) illustrate that the controlling shareholders can help mitigating *free-rider problems* existing in widely held corporations and increase the likelihood of a takeover (Shleifer and Vishny, 1986). Their study shows that large shareholdings are prevalent in Fortune 500 companies: "*354 have at least one shareholder owning at least 5 percent of the firm"* (Shleifer and Vishny, 1986, p.462). Similarly, Faccio and Lang (2002), by examining 5,232 firms of 13 western European countries, show that while nearly 37% of the firms are widely held, 63% are controlled by large shareholders mainly through dual-class shares and pyramid structures, especially for non-financial and small firms. Claessens et al. (2000) also find similar results by studying nine East Asian markets where most of them have relatively weak legal protection of investors. They argue that among 2980 publicly traded corporations of East Asia more than two-thirds have single ultimate owners and the separation of management and control is not prevalent. Similar findings are cited in Fama and Jensen (1983), La Porta et al (1999) and Morck et al. (2005). Typically, the large shareholders have incentives and ability to monitor managers. Because the controlling shareholders typically have enough cash flow rights in the firm and bear the most loss if the manager is not undertaking the optimal investment decisions, providing them incentives to closely monitor managers. This is consistent with incentive effect (La Porta el al, 2002; Shleifer and Vishny, 1986; Claessens et al, 2002), which has positive implications for shareholders' wealth. In contrast, the controlling shareholder can play a negative role (exacerbate agency problems) and reduce firm value, especially when the voting right of the controlling shareholder exceeds his/her cash flow rights. The excess control of the controlling shareholder may build primarily through three different control enhancing mechanisms: pyramid structures, cross-holdings, and dual-class shares.

Boubaker and Sami (2011) argue that the earnings informativeness could decrease when there is an excess control of the largest shareholder in a firm, while the earnings informativeness is increasing with the existence of multiple large shareholders. Using 402 French publicly traded firms from 2003 to 2007, Boubaker and Sami also demonstrate that for France where the majority of the firms are controlled by at least one large shareholder, the increase in cash flow rights of the ultimate largest shareholder can enhance earnings informativeness, which aligns the interests of controlling shareholder with those of the dispersed minority shareholders. Consistent with Boubaker and Sami (2011), using 1301 publicly traded firms of eight East Asian markets, Claessens et al. (2002) also fully address the incentive and entrenchment effect. Claessens et al. (2002) document that when the cash flow rights of the largest shareholder increase, firm value (as measured by the market-to-book ratio of assets) increases as well. On the other hand, firm value decreases with the excess of voting powers of the largest shareholder, especially when there is a weak legal protection for minority shareholders. Other studies also lend support to that the separation of control rights and cash flow rights of the largest shareholders can decrease shareholder's value, lead to sub-optimal investment decisions (Grossman and Hart, 1988), extract private benefits (Shleifer and Vishny, 1997), reduce the credibility of firms' accounting information (Fan and Wong, 2002), decrease earnings informativeness (Boubaker and Sami, 2011), implement conservative investment strategies (lower corporate risk taking) (Mishra, 2011), and increase the cost of capital (Attig et al., 2008).

The focus of ownership structure literature has recently been shifted from the conflicts of interest between managers and small shareholders to the agency problems between the dominant shareholder and minority investors, especially in countries where legal institutions are relatively weak (Guedhami and Mishra, 2009; Maury and Pajuste, 2005). In a similar vein, Shleifer and Vishny (1997) document that in US and Britain where legal protection is better than other countries, the ownership structure of corporations is less concentrated. Countries such as Japan and Germany are reliance on both legal protection and large shareholders. But in countries where legal protection is relatively weak, such as Continental Europe and other emerging markets, firms rely more on large shareholders and a large number of them are family-controlled. Similar results are found by Morck et al. (2005). However, literature is still sparse on the ownership structures featuring more than one large shareholder (i.e. multiple large shareholders) with

significant voting rights to exercise meaningful control of the board. Below we discuss agency conflicts in the firms featuring multiple blockholders.

2.2 Corporate Governance, Firm Value and Multiple Large Shareholders

Recently, an increasing number of studies have examined complex ownership structures, i.e. an ownership structure that has multiple large shareholders each holding significant block besides the largest shareholder (Faccio and Lang, 2002; Laeven and Levine, 2008; Boubaker and Sami, 2011; Maury and Pajuste, 2005; Claessens et al, 2000; Carney and Child, 2012).

Faccio and Lang (2002) record that among 13 Western European countries nearly 44% of the firms have MLS beyond the largest shareholder. Similar observations are made in Laeven and Levine (2008) who demonstrate that about one-third of listed firms in Western Europe have MLS and that the firm valuation of firms featuring MLS is different from those of widely-held firms and firms controlled by single large shareholder. Boubaker and Sami (2011) show that 44.89% of listed French firms feature MLS in their ownership structures. Maury and Pajuste (2005), after studying 136 Finnish listed firms, find that 31.7% firm-years have a second blockholder and in 16.3% firm-years there is a third blockholder. The popularity of MLS can also be found in Gutiérrez and Tribó (2004) who study Spanish firms, and Andres (2008) who study German listed companies. Apart from European countries, MLS also exist in East Asia and other parts of the world. Claessens et al (2000), using a sample of 2980 corporations from nine East Asian countries in 1996, including Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand, show significant presence of multiple large shareholders with some firms featuring up to five large blockholders with voting rights in excess of 10%. They find that among 2980 East Asian corporations 31.54% of them have two large shareholders with voting rights in excess of 10% and approximately 10% of them have three large shareholders. In line with Claessens et al. (2000), Carney and Child (2012) re-examine the ownership structures of these same countries with two hundreds largest firms from each country in 2008. They show that among 1386 largest publicly traded companies of nine East Asian countries at the end of 2008, the proportion of firms controlled by single large shareholder (SLS thereafter) increases from 44% to 86%. Also, the proportion of firms featuring more than one large shareholder is 17.44%.

According to the existing literature, the effect of multiple large shareholders (MLS) on firm value is mixed. On one hand, MLS with substantial voting power have the incentives and ability to monitor the largest shareholder and therefore can reduce the expropriation of profit from the minority shareholders, through which MLS play a value-enhancing role in firms (La Porta et al., 1999; Shleifer and Vishny, 1986, 1997; Pagano and Röell, 1998); Also, in order to gain more control of the firms, MLS have incentives to compete with each other to win the controlling power or more positions on a corporate board. Therefore, MLS will object those conservative or poor investments which may harm the benefits of minority shareholders to gain the support from them (Bloch and Hege, 2001; Bennedsen and Wolfenzon, 2000). Pagano and Röell (1998) argue that when a large initial shareholder needs external funding, s/he faces a trade-off between external monitoring and the cost of going public, since the existence of MLS beyond the largest shareholder play a monitoring role to reduce the expropriation of the firm's benefits. Gomes and Novaes (1999) find that MLS can disapprove some sub-optimal decisions in order to prevent the largest shareholder from extracting benefits from minority shareholders. Bloch and Hege (2001) show that in a model consisting two large shareholders and a number of small shareholders, both of large shareholders try to attract more votes from small shareholders to become the dominant shareholder. In order to gain more control of the firms, MLS have incentives to compete with each other to win the controlling power or more positions on a corporate board. Therefore, MLS will limit or minimize their rent extraction, which may be harmful for the benefits of minority shareholders, to gain the support from them. In this way, such an ownership structure can minimize rent extraction. In a similar vein, Nenova (2003) analyzes further the effect of a competing large blockholder on monitoring the dominant shareholder through the vote-value approach. Specifically, she proposes that when a large shareholder competes for control, s/he is willing to even give up some of his/her own benefits, *to pay to minority vote-owners a positive price for their votes up to his expected value of control* (Nenova, 2003, p.326), in order to win the contest. Similarly, Bennedsen and Wolfenzon (2000) study the relationship between corporate valuation and the distribution of cash flow rights among shareholders. They find that large shareholders would compete to form a control of firms. The coalition internalizes the consequences of its actions or expropriates benefits of other shareholders. The model demonstrates further that when the cash flow rights are evenly distributed among large shareholders, MLS are the most efficient and reduce the chance of forming a coalition with small

cash flow rights. Alternatively, Dhillon and Rossetto (2009) suggest an endogenous preference for risk level of investments based on investors' stakes in the firm. While the controlling large shareholder tends to invest in less risky projects which are not in line with small shareholders, some investors become MLS to gain more influence to shift the voting outcome towards dispersed shareholders, yet not holding more shares than the initial shareholders to significantly reduce their diversification. This equilibrium of actions leads MLS to vote for the benefits of small shareholders, thus in turn enhances firm value. Another research by Edmans and Manso (2011) document a situation when MLS fail to monitor the dominant shareholder to avoid value-destroying investment decisions. They argue that MLS can generate free-rider problems and do not have enough power to monitor the manager due to *coordination issues*. However, they point out further that this *coordination issues* can improve their effectiveness through *trading*. By "*voting with their feet*" MLS trade aggressively on private information, injecting more information into stock price, which allows MLS to discipline the manager and prevent sub-optimal decisions. Empirically, there are a number of studies which lend support to the positive role of MLS in corporate governance. Lehmann and Weigand (2000), Volpin (2002) and Carlin and Mayer (2000; 2003) find that MLS are associated with a higher firm value and higher risk/return. Using the sample of nine East Asian corporations from Claessens et al. (2000), Mishra (2011) investigates ownership structures with single large shareholder and MLS and uncovers the relationship between the voting rights of MLS and corporate risk taking (CRT) in East Asia. The empirical testing results show that in firms with a dominant shareholder, the presence of MLS has a significant and positive effect on CRT, through which MLS can mitigate agency problems and affect firm value and this effect is more prominent in firms featuring a family as the dominant shareholder. Furthermore, besides the presence of MLS, the voting power of the second largest shareholder and more than two multiple large shareholders beyond the dominant shareholder is also positively associated with CRT, which is consistent with *the efficient bargaining effects hypothesis*. Maury and Pajuste (2005) discuss different conditions under which MLS can be a benefit or harm to minority shareholders or firm value by looking at the characteristics and identities of individual blockholders. By examining a sample of 136 non-financial Finnish listed corporations with at least one large shareholder, the paper demonstrates that generally there is a positive relationship between the contestability (the ability to challenge the largest shareholder) of the controlling coalition's power and firm value (measured by Tobin's

Q). Consistent with Mishra (2011), the paper also finds out that the contestability becomes more pronounced if the firm is family owned. Laeven and Levine (2004) discuss the ownership structure of "*beyond the biggest*", which refers to multiple large shareholders. Using manufacturing firm data from thirteen European countries, the authors confirm the positive effect of MLS on firm value, especially when the second largest shareholder has a higher cash flow rights. Furthermore, the positive relationship between firm value and the cash flow rights of the second largest shareholder become more prominent when the difference of control rights of the largest and second largest shareholders decreases, indicating that *the distribution of voting and cash flow rights across large shareholders matters* (Laeven and Levine, 2008, p.29). Other studies such as Boubaker and Sami (2011) who study 402 French listed firms and find that MLS helps reduce information asymmetry problems and improves earnings informativeness and Gutiérrez and Tribó (2004) who demonstrate that in closely-held Spanish corporations the existence of MLS reduces private benefit extraction and enhances firm performance, which is consistent with bargaining and monitoring effects.

On the other hand, however, literature also document that MLS can form a controlling coalition to pursue and share the diverted private benefits (Gomes and Novaes, 2001; Zwiebel, 1995; Winton, 1993). Gomes and Novaes (2001) find that the role of large shareholders is determined by firm characteristics and disclosure laws. With a shared control, the coalition group will prove a project only if it is beneficial to all the members of the group. For a given ownership stake in a group, there exist both *bargaining effects* and *disagreement effects*. Initially when the number of shareholders in the group is small, *bargaining effects* dominates; when the number of shareholders increases, *disagreement effects* begin to dominate. For firms whose investment opportunities are hard for insiders to evaluate, single large shareholder is a more efficient ownership structure. On the contrary, for firms whose investment opportunities are hard for outsiders to evaluate or the law protections of minority shareholders are weak, MLS is the best ownership structure (Gomes and Novaes, 2001). Bennedsen and Wolfenzon (2000) also document that large shareholders can form a winning coalition to expropriate private benefits with a relatively small cash flow rights. In this way, when the expropriation happens, the winning coalition can divert more private gains using its sufficient voting rights, only at the expense of the reduction of its small cash flow rights (Laeven and Levine, 2008). Laeven and Levine (2008) demonstrate that corporate valuation is negatively associated with the dispersion

of equity rights of MLS. Zwiebel (1995) also conduct a detailed discussion on how the controlling coalitions are formed between large blockholders. Specifically, using game theory, he argues that when there is one blockholder who holds much larger amount of shares than anyone else, it reduces the incentives for small shareholders to enjoy the private benefits of the firm. In this situation, there is only one large shareholder in the firm with its size beyond a certain threshold. On the contrary, if such a large shareholder does not exist, then there will be several medium-size shareholders who form a coalition to expropriate private benefits through partial control. Alternatively, Winton (1993) addresses the free-rider problems in monitoring. He finds that if a large shareholder would like to monitor the manager's behaviour, s/he should have sufficient shareholdings and firm value increases with the largest shareholder's wealth. In this situation, it is better to have only one largest shareholder to monitor the manager. Increasing the number of MLS will negatively affect the efficiency of monitoring due to free-rider problems of MLS. Empirically, Faccio, Lang & Young (2001) find mixed results for Europe and Asia. They demonstrate that MLS increases dividend payouts for Europe (positive role of MLS), but decreases dividend payouts for Asia (negative role of MLS). Thomsen et al. (2006) find that there is a negative relationship between blockholder ownership and firm valuation and accounting profitability for Continental Europe while no significant relationship is found between blockholder ownership and firm value for US and UK. Demsetz and Villalonga (2001), studying 223 US firms and treating the ownership as an endogenous variable, show that there is no significant relationship between firm performance and ownership concentration.

3. Hypotheses Development

The bulk of studies have mainly examined the effect of two types of agency problems (managers vs. shareholders and controlling large vs. minority shareholders). However, studies report that a large number of firms around world feature large blockholders and often more than one blockholder with significant voting rights, for example, La Porta et al. (1999) in twenty-seven industrial countries, Faccio and Lang (2002) in Western Europe, Claessens et al. (2000) and Carney and Child (2012) in East Asia, and Holderness (2009) in U.S.A. Literature on the effect of multiple blockholders on a firm's agency and governance environment has mixed predictions. First, the alignment of interest hypothesis suggests that MLS can collude with the dominant shareholder to extract sharable private benefits by expropriating firms' resources away from the minority shareholders (Winton, 1993; Zwiebel, 1995). This hypothesis suggests that the existence of MLS possibly have a negative impact on internal governance and potentially exacerbate agency problems. Second, the efficient monitoring hypothesis suggests that MLS may either compete for corporate control by supporting (objecting) optimal (value-destroying) investments and preventing the dominant shareholder from expropriating the firm's resources to gain the support from minority shareholders (Bloch and Hege, 2001; Bennedsen and Wolfenzon, 2000), or discipline managers by injecting private information in equity prices through aggressive trading (Edmans and Manso, 2011). Empirical studies regarding the effect of MLS find both positive (Mishra, 2011; Attig et al., 2008; Maury and Pajuste, 2005) and negative (Thomsen et al., 2006) impact on firm-level governance. However, none of the researches has studied the effect of the evolution of voting power of large shareholders, in particular, the long term shift in the voting power towards the large shareholders other than the dominant shareholder (e.g., the second large shareholder) on firm value and operating performance. Examination of the shift in power towards the second large shareholder will be the main goal of this thesis.

In order to examine the effect of the shift in power towards the blockholders other than the dominant shareholder, we rely on the change in voting rights of the second largest shareholder as the main independent variable. Following La Porta et al. (2002) and Laeven and Levine (2004), we define a large shareholder as one holding ultimate voting rights of 10% or more. If there is no shareholder who holds more than 10% voting rights, then that firm is defined as a widely held

firm (WH). If there are more than one shareholder that hold at least 10% votes, then the firm is defined to have multiple large shareholders (MLS) and the second large shareholder is the one with second largest proportion of voting rights. If there is only one large shareholder that has at least 10% of voting rights then we define this type of firms as having single large shareholder (SLS) in its ownership structure.

Our main test variable is *the change of the voting rights of the second largest shareholder*, denoted by *ΔVote2*. This variable captures the evolution of the power of the second largest shareholder over a long-term from 1996 to 2008. *ΔVote2* is defined as the change of the voting rights of the second largest shareholder from 1996 to 2008. We consider an increase in the voting rights of the second largest shareholder as an increase in power for the second large shareholder and consequently weakening of the power of the dominant shareholder.

Power of the Second Large Shareholder and Firm Valuation

Previous studies show that agency problems between the controlling and minority shareholders are more prominent in firms with a dominant shareholder. While we note above that analytical literature has mixed predictions about the effect of MLS and their power on firm valuation, the majority of empirical studies demonstrate a positive effect of MLS on firm valuation. For example, Attig et al. (2009) study the effect of MLS for nine East Asian countries and find that the voting power of MLS is associated with a higher valuation premium. Gutiérrez and Tribó (2004) also document that the ownership stake of MLS has a positive impact in improving firm valuation. Therefore, we expect the increase in the power of the second largest shareholder makes them more able to play a positive internal governance role and mitigate agency problems, and thus enhancing firm value.

H1: In firms featuring a largest shareholder, firm value is positively associated with the increase in the power of the second largest shareholder;

Power of the Second Large Shareholder and Operating Performance

A number of studies suggest a positive relationship between MLS and operating performance. For instance, Maury and Pajuste (2005) find that the presence of MLS has a positive effect on operating performance by studying Finnish firms, indicating that the existence of MLS can

mitigate agency problems and limit the expropriation of minority shareholders. This finding is confirmed by Gutiérrez and Tribó (2004) by studying Spanish firms.

Different from previous studies, we particularly focus on the effect of the shift in voting power away from the dominant shareholder over time on operating performance. We use *ROA* and *ROE* to proxy for operating performance. Based on the findings of previous studies on the role of MLS, we expect that the increase in voting rights of the second largest shareholder has a positive impact on both *ROA* and *ROE*.

H2: In firms featuring a largest shareholder, firm's operating performance is positively associated with the increase in power of the second largest shareholder;

Power of the Second Large Shareholder and Capital Structure

There are studies suggesting that capital structure serves as an important channel through which firm value and operating performance are affected. For example, Claessens et al. (2008) show that political connection is positively related to a better access to bank finance in Brazil, which in turn leads to higher stock market returns. Lin et al. (2013) suggest that firms with more efficient monitoring should borrow more from public debt which typically has longer maturity and less from bank debt which is typically short term. Therefore, after examining the effect of the change in power of the second largest shareholder on firm value and operating performance, we will explore the impact of the shift in power towards the second largest shareholder on capital structure, which could provide a possible channel through which MLS affect firm value and performance. According to Attig et al. (2008), firms featuring MLS have lower implied cost of equity. So when looking at firm's capital structure, especially debt structure, MLS firms which have less severe agency problems and better internal governance can have an easier access to long term finance and lower interest rates due to better information quality. Therefore, such firms are capable of holding more long term debt. Therefore, we expect that the shift in power towards the second largest shareholder is positively associated with firm's holding of long term debt. Similarly, firms featuring an increase in power of the second largest shareholder tend to hold less short term debt.

H3a: In firms featuring a largest shareholder, firms' holding of long term debt is positively associated with the increase in the power of the second largest shareholder;

H3b: In firms featuring a largest shareholder, firms' holding of short term debt is negatively associated with the increase in the power of the second largest shareholder;

Power of the Second Large Shareholder and Operation Management

Literature has shown that firm value and operating performance can be enhanced through different channels. For example, McNaughton et al. (2001) fill the "black box" about the relationship between value for customers and the creation of value for the owners of the firm. Specifically, the authors present a model that explains how market orientation creates customer value, enhances firm's sustainable competitive advantage and therefore increases value of the firm through profitability and returns. They show that inventory is an important channel through which the firm can attract new customers, create customer value and thus enhancing firm valuation, since a lower inventory can shorten the sales cycle, increase earnings and reduce outgoing cash. We argue that when inventory decreases, the cost of logistics and the storage are also lower, which leads to a lower cost of selling goods and a higher efficiency in operation management. Based on the above argument, we perceive inventory to be an important channel to affect customer value, and financial performance, which in turn has an impact on firm value and performance. As we argued in the previous hypotheses, firms featuring MLS are associated with a higher firm value and better performance, partially because MLS are able to mitigate the expropriation of the benefits of minority shareholders by monitoring the dominant shareholder to implement a more efficient management strategy. When we consider inventory as a channel to affect firm performance, we can expect that MLS can monitor the dominant shareholder to take more efficient operation management strategies to achieve a lower inventory which can lead to a lower cost of storage, shorter sales cycle, higher earnings and profits, higher customer satisfaction and better financial perspectives, which thereby enhance firm performance and firm value. Therefore, we expect that firms featuring an increase in the power of the second largest shareholder have a lower inventory through which firm value can be increased.

H4: In firms featuring a largest shareholder, inventory is negatively associated with the increase in the power of the second largest shareholder;

Power of the Second Large Shareholder and Dividends Payout Ratio

Dividends policy has been considered as a very important indicator and signalling to outside investors about a firm's information, earnings and future perspectives (Pettit, 1972; Brickley, 1983; Miller and Modigliani, 1961; Bhattacharya, 1979). Typically, stock price increases (decreases) as firms increase (decrease) dividends, i.e. markets prefer stocks that pay high dividends. Miller and Modigliani (1961) study the relationship between dividends and future earnings and find that increased dividends are a positive signal for better future earnings. Actually, dividend is a very expensive tool of signalling. Firms which initiate or increase dividends sacrifice their opportunities of investing into other valuable projects with those cash (Miller and Rock, 1985), which makes dividends a very credible signal for firm valuation. If this is the case, we can perceive the increase of dividends as a way of mitigating information asymmetry between insiders and outsiders. On the other hand, a firm can choose to increase its dividends if it is very confident about its future and wants to convey positive information about its future earnings to outside investors.

Literature has suggested that MLS who compete for more control and more board positions by attracting the votes of small shareholders are likely to support policies that favour the outside small shareholders (Mishra, 2011; Bloch and Hege, 2001; Bennedsen and Wolfenzon, 2000). Empirically, Faccio et al. (2001) suggest a positive relationship between MLS and dividends payout ratio for European countries. Boubaker and Sami (2011) find that MLS helps reduce information asymmetry problems and improves earnings informativeness. If this is the case, MLS who compete for more control can support a positive dividend policy as a way of mitigating agency problems and information asymmetry, and attracting small shareholders' votes. Such firms are supposed to have better future earnings and firm value observed by investors than other firms. Therefore, we expect that the increase in power of the second largest shareholder (measured by the change in voting rights of the second largest shareholder) can mitigate agency problems, alleviate market information asymmetry and support a higher dividend payout ratio as a credible signal to outside shareholders.

H5: In firms featuring a largest shareholder, dividends payout ratio is positively associated with the increase in the power of the second largest shareholder.

4. Data and Methodology

4.1 Sample Construction

To investigate the effect of ownership structure on firm value, performance, debt structure, and dividends, we assemble an international data set on corporate ownership and firm characteristics. Our sample construction process starts with WorldScope database, which provides extensive financial and accounting data on public listing firms around the world. From WorldScope we obtain detailed financial and accounting information from which we are able to calculate Tobin's Q, ROA, ROE, debt structure, inventory, dividends payout ratio and other control variables. We consider firms represented in Claessens et al. (2000), Carney and Child (2010), and WorldScope for nine East Asian countries from 1995 to 2010. The nine East Asian countries are: Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. We match the ownership data from Claessens et al. (2000) and Carney and Child (2012). Claessens et al. (2000) includes ownership data (cash-flow and voting rights for all owners who have more than 5% of the outstanding shares of the company) for 2,980 publicly traded corporations (both financial and nonfinancial institutions) in nine East Asian countries in 1996, while Carney and Child (2012) records the same variables that Claessens et al. (2000) have acquired using a 10% share threshold for 1,296 largest publicly traded firms (in terms of market capitalization) from the same nine East Asian countries in 2008. Our ownership data set thus consists of the voting rights of the largest and the second largest shareholders in both 1996 and 2008 for us to calculate the change in power of the second large shareholder. It also includes the cash flow rights of the largest shareholder in both 1996 and 2008 for us to measure the change of the excess control of the dominant shareholder. As we have discussed in the hypotheses development section, following La Porta et al. (2002) and Laeven and Levine (2004), we define a large shareholder as one holding ultimate voting rights of 10% or more. If there is no shareholder who holds more than 10% voting rights, then that firm is defined as a widely held firm. If there are more than one shareholder that hold at least 10% votes, then the firm is defined to have multiple large shareholders (MLS) and the second large shareholder is the one with second largest proportion of voting rights. If there is only one large shareholder that has at least 10% of voting rights then we define this type of firms as having single large shareholder in its ownership structure.

To be retained in the sample, the firms must exist in both 1996 and 2008 since we are testing the effect of the change of change in voting power of the second large shareholder from 1996 to 2008. Also, in order to calculate firm characteristics variables such as Tobin's Q and ROA, we require that firms must exist in WorldScope database. Our sample thus consists of 6,060 firm-year observations, covering 403 firms in nine East Asian countries from 1996 to 2010.

Why we would like to choose East Asian countries? Firstly, the legal protections for shareholders of eight of the nine East Asian countries (except for Japan) are relatively weaker than those of European and US economies, which can make the role of MLS more prominent. Secondly, the majority of the firms have at least one large shareholder with voting rights of more than 10%. Furthermore, nearly 30% of the sample firms (37% in 1996 and 22% in 2008) feature a presence of MLS among firms with at least one large shareholder. This advantage of data makes it easier to empirically test the effect of MLS on firm value with the presence of at least one large shareholder. Thirdly, according to prior literature, these nine East Asian countries are characterised with stronger power of the largest shareholder and more severe agency problems (Attig et al., 2009; Claessens et al., 2002).

4.2 Variable Specifications

4.2.1 Main Dependent Variables

In our paper, we will mainly test for the following firm characteristics and their relationship with the shift in power away from the dominant shareholder (i.e. increase in the power of the second large shareholder): firm valuation, operating performance, capital structure, operation management, and dividends payout ratio. Our main proxy for firm value is *Tobin's Q*, which is defined as the ratio of the market value of assets to their book value (Morck, Shleifer and Vishny, 1988; Claessens et al., 2002; Maury and Pajuste, 2005). Following Maury and Pajuste (2005), *Tobin's Q* is the market value of equity plus the book value of total assets minus the book value of equity, then all divided by the book value of total assets. Our proxies for operating performance are *ROA* and *ROE*. *ROA* is defined as net income divided by total assets (ratio provided by Datastream). *ROE* is defined as net income divided by shareholder's equity (ratio provided by Datastream). Our main focus of investigating capital structure as an important channel through which MLS affect firm value is the debt structure of a firm, specifically whether

the firm tend to have long term or short term debt. Long term debt (*Ldebt*) is defined as the ratio of a firm's long term debt to its total debt. Short term debt (*Sdebt*) is measured as the ratio of a firm's short term debt to its total debt. Our proxy for firm's operation management is *Inventory*, which is defined as the total inventory divided by total assets. Our proxy for firm's dividend is *dividends payout ratio*, which is defined as dividends per share divided by earnings per share. Also, we winsorize all the dependent variables at 1th and 99th percentiles to avoid outliers. The market value of equity, the book value of total assets, the book value of equity, ROA, ROE, long term debt, short term debt, total debt, inventory, and dividends payout ratio are all from WorldScope database.

4.2.2 Main Explanatory Variables

4.2.2.1 The Evolution of Ownership Structure Variables

Our proxies for the evolution of ownership structures are main test variables including the change of the voting rights of the second largest shareholders, denoted by *ΔVote2*. Since we examine the impact of *ΔVote2* on firm value and performance in the firms featuring the dominant shareholder, we will control for the change of the voting rights of the largest shareholder, denoted by *ΔVote1*, as well as the change of the excess voting rights of the largest shareholder, denoted by *ΔExcess1*. As discussed in hypotheses development, we expect the shift in power towards the second largest shareholder (i.e. *ΔVote2*) to be positively associated with *Tobin's Q*, *ROA*, *ROE*, *Ldebt*, and *dividends payout ratio* while negatively associated with *Sdebt* and *Inventory* (Maury and Pajuste, 2005; Mishra, 2011; Attig et al., 2008).

4.2.2.2 Control Variables

Following previous studies, our main control variables are firm characteristics, including *firm size*, *leverage*, *sales growth*, and *capital expenditure*. According to Maury and Pajuste (2005), we use the logarithm of total assets as a proxy for *firm size*. We expect firm size to be positively associated with firm value since the larger a firm is, the more mature the firm is in its life cycle and has more intensive diversification (Attig et al., 2009; Claessens et al., 2002). We calculate *leverage* as the ratio of total debt to total assets. For leverage we expect it to negatively impact firm value since more leverage could increase the risk of financial distress (Laeven and Levine, 2007; Gutiérrez and Tribó, 2004). Following M. Gutiérrez et al. (2012), *sales growth* is

measured by the difference between current and last year's net sales or revenues divided by last year's total net sales or revenues. We expect it to be positively associated with firm valuation and operating performance because the higher the growth rate is, the higher the firm value is and the better the operating performance is. Finally, *Capital expenditure* is defined as the total capital expenditure of a firm divided by average total assets in order to capture firm's investments (Attig et al., 2009). Like sales growth, capital expenditure is expected to be positively related with firm valuation because a firm which has a better growth opportunity and more capital expenditures is supposed to have a better performance and higher value (La Porta et al., 2002). For all the main control variables, we use lagged values instead of contemporaneous values to control for the impact of previous values on current dependent variables.

Also, previous dependent variables are plausibly highly correlated with current values of dependent variables. For example, the current year of Tobin's Q is strongly affected by its last year value, i.e. lagged Tobin's Q. Therefore, in order to partial out the effect of previous values of dependent variables, we control for lagged values of dependent variables for the full sample, including lagged Tobin's Q, lagged ROA, lagged ROE, lagged long term debt, lagged short term debt, lagged inventory, and lagged dividends payout ratio. On the other hand, when using subsample of 2008-2010, we regress future values of dependent variables on the changes of ownership structure from 1996 to 2008. Therefore, instead of controlling for lagged dependent variables, we control for *the change* of the dependent variables from 1996 to 2008.

In order to alleviate the impact of outliers of control variables, we winsorize all of them at the 1th and 99th percentiles. Finally, apart from the above control variables, we also add year, industry, and country dummy variables in order to control for year, industry, and country fixed effects.

4.3 Descriptive Statistics

Table 1 presents the summary statistics of our main variables in the full sample.

[Insert Table 1 about here]

Panel A of Table 1 presents summary statistics for dependent variables in our study. The average of Tobin’s Q across all firm-years is 1.226. The average of ROA and ROE are 5.064 and 0.069,

respectively. Long term and short term debt on average are 52.4% and 48.4% of total debt, respectively. The average dividends payout ratio across all firm-years is 0.257. Inventory on average is 10.8% of total assets. Panel B shows the evolution of ownership structure variables, which captures the change of ownership and control of the largest and second largest shareholders. On average *ΔVote1* is 6.61, indicating that the voting rights (or control) of the dominant shareholder increase by 6.61 percentage point from 1996 to 2008. On the other hand, the excess control (control right minus ownership right) of the dominant shareholder barely changes during the period of 1996 to 2008, with an increase of merely about 0.3 percentage point. One interesting finding is that the voting rights of the second largest shareholder increase significantly by 13.74 percentage points, which suggests that the second largest shareholder is gaining more power in the control of the firms.

Table 2 describes the pairwise correlation matrix between our key variables.

[Insert Table 2 about here]

Our pairwise correlation results show that Tobin's Q, ROA, and ROE are highly correlated among each other, especially between ROA and ROE. Unsurprisingly, firm valuation and operating performance strongly affect each other. The correlation between short term and long term debt is -1.00, largely because short term and long term debt are substitute in debt structure: the more the firm is borrowing long term debt, the less the firm is holding short term debt, given a certain level of total debt. *ΔVote1* seems relatively more correlated with *ΔVote2*. Yet, the correlation coefficients among other variables do not appear too large to raise concerns for multicollinearity.

4.4 Does the Ownership Structure Change over Time across Countries?

Our compiled data represents the ownership structures of the nine East Asian countries in 1996 and 2008, from which we are able to trace the change of the ownership structures for the nine countries over the two periods. Table 3 presents the composition of the existence of firms by countries and by years.

[Insert Table 3 about here]

From Table 3 we can find that the number of firms that exist in both 1996 and 2008 are 403, which represents 15.03% of our sample. More than half of the firms (56.79%) exist only in 1996, among which Japan has 810 firms, accounting for almost one-third of our sample. Among those firms which exist in both 1996 and 2008, Hong Kong has the largest number of firms, following by Japan and South Korea, while Taiwan has the least number of firms existing in both years. The range of numbers of firms across countries is small, however, from 24 to 74. Table 4 describes the change of the ownership structures from 1996 to 2008 of our sample by year and country. Firstly, if we look at the change of ownership structures across years we can find that for firms that exist in 1996, about half of them have single large shareholder (SLS), nearly one-third have MLS, and 21.6% of them are widely held firms. In 2008, the composition of ownership of firms has changed. Almost two-thirds of firms existing in 2008 are SLS, while the percentage of firms featuring MLS has decreased to 16.84%. The percentage of widely held firms basically remains the same, from 21.6% in 1996 to 23.2% in 2008. Secondly, in terms of country level, we can see that every country experiences a significant ownership structure changes from 1996 to 2008. For example, 2.58% firms existing in 1996 are SLS, while in 2008 it increases to 5.15%. The percentage of MLS of Taiwan firms decreases from 2.84% to 0.69% while widely held firms increase from 0.26% to 7.65%. The same changes also happen in Thailand, South Korea and Singapore. Japan has the largest percentage of firms of SLS and widely held (WH) in 1996. However, these percentages decrease significantly in 2008. The reason probably is that Claessens et al. (2000) select almost all the firms of East Asian countries, where almost half of them are Japanese firms, while Carney and Child (2012) only choose 200 largest firms from each country which reduces the percentage of Japanese firms. On the other hand, the percentage of Hong Kong firms basically remains the same over time.

[Insert Table 4 about here]

Now we take a closer look at the surviving firms, which exist in both 1996 and 2008. These firms consist of the main subsample we would like to test later on. Table 5 shows the change of ownership structures of the companies that exist in both 1996 and 2008 by country.

[Insert Table 5 about here]

The table shows that among the surviving firms, 50% of firms is SLS in 1996 while this percentage increases to 63.12% in 2008. The number of widely held firms also increases over time. However, the percentage of MLS decreases significantly from 37.6% to 15.1%, indicating that the number of firms featuring MLS has reduced over time: More than one-third of firms remain SLS and a quarter of firms change from MLS to SLS. The percentage of firms that remain MLS over time is only 8.17%. Also, we find that the surviving firms are basically evenly distributed among nine East Asian countries with a relatively small range. Most importantly, nearly 48% of firms change their ownership structure from 1996 to 2008, implying that almost half of the firms experience a significant change of the ownership structures over the decade. The most remarkable change is firms changing from MLS to SLS. When looking at different countries, we can see that nearly 80% of firms from Taiwan have experienced a change of ownership over time. Thailand and Singapore also have more than 70% of firms undergoing a change of ownership structure. Almost half of the firms from Indonesia, Malaysia and Philippines have their ownership structure changed. One-third of firms in Japan are no longer remaining their ownership structures. Hong Kong has the least percentage of firms going through structure changes, merely with 28.3% of firms.

In a brief conclusion, the percentage of MLS firms decreases from 28.99% to 16.84%, while SLS firms increase remarkably. Also, the descriptive analysis shows that the ownership structures of each country change significantly from 1996 to 2008. For those surviving firms, the percentage of MLS firms decreases while firms featuring SLS and WH increase over time. Most of the countries experience a prominent change of ownership structures, with the most remarkable conversion being firms changing from MLS to SLS (25% of the surviving firms). Therefore, it is very obvious that the nine East Asian countries all have a significant change of ownership structures during the period of 1996 to 2008 and there are a decreasing number of firms featuring MLS over time.

4.4 Methodology

Theoretical corporate governance research regarding the role of MLS is limited. Although Maury and Pajuste (2005), Attig et al. (2009) and others examine whether MLS can mitigate extraction of private benefits of minority shareholders, empirical studies are also inconclusive. Our paper contributes to current literature and fills this gap by (1) investigating the impact of the evolution

of MLS (i.e. the shift in power towards the second largest shareholder) on firm value and operating performance, and how the increase in power of the second largest shareholder play an important monitoring role in mitigating expropriation of minority interest and information asymmetry; and (2) empirically examining plausible channels through which the increase in power of the second largest shareholder can affect firm valuation and performance. Specifically, we estimate several specifications of the following models:

$$FirmCharacteristics_{it} = \alpha_0 + \alpha_1 OnwershipStructureVariables_{it} + \alpha_2 ControlVariables_{it} + \alpha_3 FixedEffects + \varepsilon_{it}.$$

We specify the regression variables as follows:

Firm characteristics=firm valuation measured by Tobin's Q, operating performance measured by ROA and ROE, debt structure captured by long term debt and short term debt, operation management measured by inventory, and dividend policy measured by dividends payout ratio;

Ownership structure variables=proxies for the change in voting rights of the largest and second largest shareholders, denoted by *ΔVote1* and *ΔVote2*;

Control variables=a set of variables that capture other firm characteristics, including firm size, sales growth, capital expenditure and leverage;

Fixed effects=dummy variables that control for fixed effects of years, countries, and industries;

Ɛ=an error term.

Discussions about endogeneity issues: It is important to emphasize that our results might be the suspect of potential endogeneity problems. First, this thesis is subjected to omitted variable problems. The ownership structure and dependent variables may be jointly determined by the environment the firm is in, such as legal protection environment. Second, one might suspect that that our results might be an outcome of a possible reverse causality problem. We try to address them with the following methods. First, we control for fixed effects including year, country, as well as industry fixed effects in each of our regressions. Second, we construct a subsample of 2008 to 2010, while our key test variables are measured over 1996 to 2008 to test how the shift in power towards the second largest shareholder affects future firm value and performance.

Thirdly, we perform a robustness test using the industry-country average change in voting rights of the second large shareholder as the proxy of the shift in power away from the dominant shareholder.

5. Empirical Results

5.1 Power of the Second Large Shareholder and Firm Valuation

Previous studies show that agency problems between the controlling and minority shareholders are more prominent in firms with a dominant shareholder. Therefore, in order to better examine the role of the shift in power towards the second largest shareholder, for each regression we restrict our sample to the firms with at least one large shareholder with 10% or more voting rights in 2008. As we discuss above, whether MLS can help alleviate agency problems and improve firm valuation is still an empirical question, and previous studies only focus on the impact of the existence and the level of voting rights of MLS on firm valuation. In the section we primarily focus on the effect of the shift in power towards the second largest shareholder (i.e. the *change* in the voting rights of the second largest shareholder) on firm valuation. We present the multivariate regression results for the full sample of 1996-2010 in Model (1) to (3) of Table 6.

[Insert Table 6 about here]

Since we are testing the role of *ΔVote2* in firms featuring at least one dominant shareholder, in each model we control for the characteristics of the largest shareholder either with the change of the voting rights of the largest shareholder from 1996 to 2008 (*ΔVote1*) or with the change of the excess voting power of the largest shareholder (*ΔExcess1*). Model (1) presents the regression of Tobin's Q on *ΔVote1* and *ΔVote2* without other control variables. The coefficient of *ΔVote1* is significantly negative at 1% level, indicating a negative relationship between the change in power of the dominant shareholder and Tobin's Q. The coefficient of *ΔVote2* is negative and significant at 1%, suggesting that it has a positive impact on Tobin's Q. The coefficient of *ΔVote2* suggests that one standard deviation increase of the voting power of the second largest shareholder from 1996 to 2008 improves the level of Tobin's Q by 0.011*17.891=0.1968 per dollar of capital invested in the firm's assets. When we add other control variables in Model (2), however, the coefficient of *ΔVote1* is becomes insignificant, while the coefficient *ΔVote2* remains positive and significant at 1% level. When we use the change of the excess voting rights of the largest shareholder (*ΔExcess1*) instead of *ΔVote1* in Model (3), *ΔExcess1* is weakly negative and *ΔVote2* is positive and significant at 1% level. For the insignificance of *ΔVote1*, one possible explanation is that dominant shareholder has the incentives to monitor the activities of

the manager in order to reduce agency problems between the manager and shareholders (Shleifer and Vishny, 1997), but this benefit is largely offset by another type of agency problems caused by the conflicts of interest between the largest shareholder and minority shareholders. The positive sign of the change in power of the second largest shareholder (*ΔVote2*) in each model suggests that the second largest shareholder have a positive impact on firm value. This finding is consistent with previous studies about the positive role of MLS in mitigating agency problems and increasing firm value.

While we find positive effect of the long term shift in power towards the second largest shareholder on firm value, our tests are suspects for endogeneity bias, particularly because the timing of the measurement of shift in power overlaps the time in which we measure dependent variables. First, the ownership structure and firm characteristics may be jointly determined by the environment the firm is in, such as legal protection environment. For example, widely held firms are more common in US and UK than in East Asian countries like Indonesia and Malaysia, partly because counties like US and UK have a better legal protection for investors than developing countries like Indonesia and Malaysia. As a result, ownership is more concentrated in countries with weak investor protection (La Porta et al., 1999; Claessens et al., 2002). While our paper focuses on nine East Asian countries where most of them have relatively weak investor protections, we address this omitted variable issue by controlling for country effects. Second, although one can argue that an increase in controlling power of the second largest shareholder may lead to a better firm performance, others can also argue that large shareholders voluntarily choose firms with better value and performance and then stay passive (Demsetz and Villalonga, 2001). The situation can be that the manager in the firm is doing a very good job and the firm is showing to the market about its promising future earnings. Therefore, such kind of firms may attract large investors, suggesting that causality flows from firm value to the prevalence and power of MLS. In order to address this issue, first, we replicate our tests in the subsample representing 2008-2010. In this subsample the dependent variables are measured subsequent to 2008, while the key test variable *ΔVote2* is measured over 1996 to 2008. We believe that it would be less likely that the dependent variables measured as of 2008 to 2010 affect the decisions of the large blockholders to initiate the change in their holdings of firm's securities over 1996 to 2008. Second, we use the industry-country average change in voting rights of the second large shareholder as the proxy of the shift in power away from the dominant shareholder.

The rationale is that while it is possible that firm specific valuation variables may affect their blockholders' intention to change ownership, however, the effect of such tendency in one firm would be much lower for industry and country as a whole, i.e. a firm's valuation is less likely to have impact on industry-country level ownership.[2]

Model (4) to (6) present the relationship between the shift in power towards the second largest shareholder (*ΔVote2*) and Tobin's Q with subsample of 2008 to 2010. We replicate the regressions of Model (1) to (3) with one difference, i.e. in Model (4) to (6) we control for the change of Tobin's Q from 1996 to 2008 in place of the lagged one-year Tobin's Q. In all models we find that the coefficient of *ΔVote2* is positive and significant at 1% level.

Next, Model (7) to (9) present the regressions using the industry-country average change in voting rights of the second large shareholder as the main independent variable. Using full sample of firm-years, in Model (7) we regress Tobin's Q on industry-country average of *ΔVote1 and ΔVote2* without other control variables. In Model (8) we regress Tobin's Q on industry-country average of *ΔVote1 and ΔVote2* with other control variables, while in Model (9) we control for the change of the excess control of the dominant shareholder (*ΔExcess1*) and regress Tobin's Q on industry-country average of *ΔVote2* with other control variables. We find that industry-country means of *ΔVote2* is significantly and positively associated with Tobin's Q, further mitigating the concern that our results are outcome of the causality flowing from firm value to blockholder's decision to change ownership.

Now that we have found that the shift in voting power towards the second largest shareholder (i.e. the shift in power away from the dominant shareholder) can play a positive role in increasing firm valuation and alleviating agency problems, below we present tests of the impact of the change in voting rights of the second large shareholder on operating performance and

[2] In order to alleviate the endogeneity bias, we also use a subsample of firms that remain their ownership structures over time (i.e. SLS-SLS, MLS-MLS, and WH-WH firms) and construct a dummy variable which equals to 1 if the firms remain MLS over time and 0 otherwise as the test variable, denoted by *MLS*. The results show that *MLS* is significantly positive at 1% level, indicating that MLS ownership structure over time mitigates agency problems and increase firm value. By using this test variable, we can test the effect of the persistent ownership structure on firm value. Since in this subsample the ownership structures of the firms do not change over a long time, this test helps us mitigate endogeneity problems in that we can rule out the possibility that the higher firm value attracts investors to select the good quality firms and stay passively.

other channels through which shift in power away from the dominant shareholder may increase firm value.

5.2 Power of the Second Large Shareholder and Operating Performance

Previous studies find positive effect of MLS on operating performance. For instance, Maury and Pajuste (2005) examine the role of MLS and find that MLS have a positive effect on operating performance even though this positive effect greatly depends on the identity of MLS. Similar results can also be found in Attig et al. (2009) who use ROA, net margin, and sales growth to demonstrate the positive relationship between MLS and operating performance. Using Spanish closely-held firms, Gutiérrez and Tribó (2004) find that the existence of MLS reduces private benefit expropriation and enhance operating performance and the performance improves as the number of MLS increases. However, there exists a gap in terms of the internal governance role of MLS on operating performance from the shift in power away from the dominant shareholder perspective, which is the main focus of this section. When studying whether the increase in power of the second largest shareholder can help improve operating performance, we mainly use ROA and ROE as the measurements for performance. Based on previous research, we expect that both the relationship between the change in voting rights of the second large shareholder (*ΔVote2*) and ROA and the relationship between the change in voting rights of the second large shareholder (*ΔVote2*) and ROE to be positive. In other words, an increase in power of the second largest shareholder can mitigate the extraction of private benefits by the dominant shareholder and improve operating performance.

Firstly, we test the impact of the change of the voting rights of the second largest shareholder on ROA and present our multivariate regressions for our full sample of 1996-2010 in Table 7.

[Insert Table 7 about here]

Previous research shows that the effective role of MLS is more prominent in firms featuring at least one large shareholder. Therefore, in the similar manner as we test for Tobin's Q, in order to better capture the effect of MLS we only test for firms that have at least one large shareholder with voting rights of at least 10% in 2008 and in each model we control for the change in power of the largest shareholder. Model (1) to (3) show the regression results for the testing of ROA using the full sample of 1996-2010. In Model (1) we regress ROA solely on *ΔVote1* and *ΔVote2*,

without controlling other firm factors except for year, industry and country fixed effects. The coefficient for *ΔVote1* is negative but insignificant. Although there is a negative relationship between the change in voting rights of the largest shareholder and ROA, this relationship is not remarkable. *ΔVote2* is positive and significant at 1%, suggesting that without controlling other firm factors, as the voting rights of the second largest shareholder increase ROA also increases. In Model (2) we regress ROA on *ΔVote1* and *ΔVote2* and control for other firm characteristics as well as lagged ROA. Like Model (1), after controlling for other factors and fixed effects, *ΔVote2* is still significant at 1% level while *ΔVote1* remains negative but insignificant. The results show that ROA is positively associated with the change of the voting power of the second largest shareholder. As the second largest shareholder increases his/her stakes from 1996 to 2008 by one standard deviation, the level of ROA increases by 0.056*17.891=1.002. The negative but insignificant sign of *ΔVote1* indicates that although the largest shareholder can mitigate agency problems between the manager and shareholders to some extent, s/he increases the drawback of another type of agency problem between the dominant shareholder and small shareholders and this drawback even slightly outweighs the benefits of having the dominant shareholder. Model (3) regresses ROA on *ΔVote2* and *ΔExcess1*, controlling for other firm characteristics. Similar to what we expect for Tobin's Q, we also expect a negative relationship between ROA and *ΔExcess1* because the more excess control the dominant shareholder has, the more incentives s/he has to expropriate the benefits of minority shareholders (Claessens et al., 2002). The regression results show that the coefficient of *ΔExcess1* is negative, as we expect, but not significant. *ΔVote2* is still significantly positive at 1% level, suggesting that the shift in power away from the dominant shareholder indeed has a strongly positive impact on firm's ROA. The increase in power of the second largest shareholder from 1996 to 2008 improves ROA prominently, consistent with the effective role of MLS in mitigating agency and information asymmetry problems and thus enhancing operating performance (Maury and Pajuste, 2005; Attig et al., 2009; Gutiérrez and Tribó, 2004).

Like our tests for Tobin's Q, our tests for ROA are also subjected to endogeneity bias. Therefore, we address endogeneity issues in the similar manner as reported in Tobin's Q by using the subsample of 2008-2010 and also the industry-country average change in voting rights of the second large shareholder as the test variable. Model (4) to (6) are the regression results for the

subsample of 2008-2010 to address the reverse causality issues. The coefficients for *ΔVote2* are significantly positive, suggesting that an increase in power of the second largest shareholder is positively associated with a higher *future* operating performance, which is consistent with the results for the full sample. In Model (7) to (9) we regress ROA on the industry-country average of *ΔVote2*. Similarly, we find significantly positive impact of the industry-country average of *ΔVote2* on ROA, indicating that the industry-country level of average change in voting rights of the second large shareholder leads to a higher ROA, but it is unlikely that firm level ROA can impact the industry-country level of change in voting rights of the second large shareholder, which suggests a potential correction for endogeneity bias.

Secondly, we test the impact of the change of the voting rights of the second largest shareholder on ROE and present our multivariate regressions for our full sample of 1996-2010 in Table 8.

[Insert Table 8 about here]

Model (1) to (3) show the regressions for ROE as the dependent variable using the full sample of 1996-2010. Basically we get the same results for ROE as we get for ROA. In Model (1) without the control variables, *ΔVote1* shows a weakly negative relationship with ROE, while *ΔVote2* is significantly positive at 1% level, indicating a positive impact of an increase in power of the second largest shareholder on ROE. In Model (2) we regress ROE on *ΔVote1* and *ΔVote2* with the control variables. The results show that *ΔVote1* remains weakly negative while *ΔVote2* is still strongly positive at 1% level. Consistent with previous studies regarding to the role of MLS, we find that an increase in power of the second largest shareholder has a significantly positive impact on operating performance. Model (3) is the regression of ROE on *ΔVote2* and *ΔExcess1* with control variables and fixed effects. The regression results suggest that even though the increase of the excess control of the dominant shareholder has a negative impact on ROE, this impact is trivial. *ΔVote2* still remains significantly positive at 1%, implying that ROE is positively associated with the increase of the voting rights of the second largest shareholder.

In Model (4)-(9) we address the endogeneity bias in the similar manner as we do for ROA. In Model (4)-(6) we replicate the regressions of the full sample using the subsample of 2008 to 2010. Similar to what we find for ROA, *ΔVote2* is significantly and positively associated with *future* ROE. The results suggest that an increase in power of the second largest shareholder leads

to a higher future operating performance, which is a potential correction for reverse causality problems. Model (7) to (9) are the regressions of ROE on the industry-country level of average change in voting rights of the second large shareholder (industry-country average of *ΔVote2*). We find that the coefficients of industry-country average of *ΔVote2* are positively significant for all the regressions. These tests using industry-country average of *ΔVote2* suggest that it is less possible that the industry-country level of average change in power of the second large shareholder is affected by firm level ROE, but more likely that the industry-country average change in power of the second large shareholder affect ROE, which addresses the endogeneity bias.

In a brief conclusion, previous studies suggest a positive relationship between MLS and operating performance. On one hand, since the existence of the dominant shareholder extracts private benefits of minority investors, MLS can play a monitoring role by either promoting beneficial investment decisions to maximize shareholders' profits or objecting sub-optimal or value-destroying activities to mitigate the expropriation of the benefits of minority shareholders, thus enhancing operating performance. On the other hand, MLS who seek to gain more control or board positions in a firm can attract the votes from minority shareholders by voting for investments that favour the benefits of those minority shareholders (Bloch and Hege, 2001). Therefore, we forecast a positive relationship between MLS and operating performance measured by ROA and ROE. Consistent with literature, we find that an increase in power of the second largest shareholder has a strongly positive impact on both ROA and ROE, with or without controlling for other firm characteristics. This finding shows the efficient monitoring role of MLS as found by previous studies, suggesting that MLS can help alleviate agency problems, enhance internal governance, and improve operating performance. The fact that *ΔVote1* and *ΔExcess1* are negative but not significant is probably due to the offset between two types of agency problems (dominant shareholder vs. minority shareholders and the manager vs. small shareholders).

5.3 Power of the Second Large Shareholder and Capital Structure

After we find that a shift in power towards the second largest shareholder is associated with higher firm valuation and better operating performance, we further examine whether the increase in power of the second largest shareholder has significant impact on possible channels through

which firm valuation and operating performance are affected. Literature has demonstrated that firm valuation can be affected through capital structure. For example, Claessens et al. (2008) demonstrate that political connection is related to a preferential access to bank finance in emerging markets, which in turn can help firms to achieve higher stock market returns. Also Lin et al. (2013) find that firms with less monitoring needs and less agency problems have better access to public debt which typically have longer maturities. For firms featuring MLS, agency problems are less severe than those in firms without MLS. According to Attig et al. (2008), firms with MLS tend to have a lower implied cost of equity. Therefore, such firms as MLS firms should have easier access to long term finance. On the other hand, MLS firms should have less holding of short term debt in order to avoid paying out too much cash frequently. Furthermore, we argue that when the power of the second largest shareholder increases, it weakens the power of the dominant shareholder, which dampens the incentive of the benefit extraction from minority shareholders to the dominant shareholder. Therefore, such shift of power from the dominant shareholder to the second largest shareholder can lead to a lower cost of long term financing and improved access to long term finance for optimal investments. Based on this argument, we expect the relationship between the increase in power of the second largest shareholder and firm's long term debt to be positive and the relationship between the increase in power of the second largest shareholder and firm's short term debt to be negative.

First, we examine the effect of the increase in power of the second largest shareholder on firm's long term debt. We report our multivariate regression results of long term debt for the full sample of 1996-2010 in Model (1) to (3) of Table 9.

[Insert Table 9 about here]

Similar to the method we test for operating performance, we also focus on firms which have at least one large shareholder of 10% or more voting rights in 2008 where agency problems are considered more prominent in such firms. Model (1) to (3) present the regression results for the full sample of 1996-2010. In Model (1) of Table 9 we solely regress long term debt on *ΔVote1* and *ΔVote2* and control for year, industry and country effects, without controlling for other firm characteristics. Both signs of *ΔVote1* and *ΔVote2* are positive and but only significant for *ΔVote2*. Model (2) demonstrates the regression of long term debt on *ΔVote1* and *ΔVote2* by

controlling other firm characteristics as well as lagged long term debt. The results show that after controlling for other firm characteristics *ΔVote2* is significantly positive at 1% level, while *ΔVote1* is still not significant. This suggests that the change of voting rights of the second largest shareholder is positively associated with long term debt. The increase in power of the second largest shareholder weakens the power of the dominant shareholder, which mitigates agency problems and lowers cost of long term financing. The insignificance of *ΔVote1* indicates that the change of the voting rights of the dominant shareholder does not have significant impact on firm's choice of long term debt, which is probably due to the offset between the benefits and costs of the two types of agency problems. In Model (3) we regress long term debt on *ΔVote2* and *ΔExcess1*. According to Claessens et al. (2002), the excess control rights over cash flow rights of the dominant shareholder have a negative impact on firm valuation. Therefore, we expect the sign of *ΔExcess1* to be negative because an increase in the excess control power of the dominant shareholder exaggerates agency problems, increases the cost of long term financing, as opposed to the role of MLS, thus decreasing a firm's holding of long term debt. Model (3) shows that *ΔVote2* is still significantly positive at 1% level. The more the second largest shareholder increases its voting rights, the more the firm will be holding long term debt. On the other hand, the coefficient of *ΔExcess1* is positive but not significant. Since the coefficient of *ΔExcess1* is trivial, we do not find a significant impact of an increase in the excess of the voting rights of the dominant shareholder on firm's holding of long term debt.

Based on Model (1) to (3) for full sample of 1996-2010, we find that the increase of the voting power of the second largest shareholder is positively associated with firm's long term debt. With a shift of power from the dominant shareholder to the second largest shareholder from 1996 to 2008, the firm lowers its cost of long term debt financing. This finding is consistent with Attig et al. (2008) which suggest that MLS helps reduce implied cost of equity. However, we do not find a significant impact of the change of the voting rights of the largest shareholder on firm's long term debt.

As we discussed in the previous section, our tests are suspect for endogeneity bias due to the fact that the timing of the measurement of the change of voting rights overlaps the time in which we measure dependent variables. Following what we did to address endogeneity problems for firm value and operating performance, we also construct a subsample of 2008-2010 and use industry-

country average change of the second largest shareholder to test for long term debt. Model (4)-(6) are the regression results for the subsample of 2008-2010 in which we measure long term debt subsequent to 2008. When we regress Ldebt only on *ΔVote1* and *ΔVote2* in Model (4) we do not find significant results for *ΔVote2*. However, after we control for other firm characteristics in Model (5) and (6), we find that *ΔVote2* is significantly positive at 1% level, which is consistent with the full sample results. The results in Model (4)-(6) suggest that the increase in power of the second largest shareholder is associated with a higher *future* long term debt. Model (7)-(9) present the regression results for industry-country average change of the second largest shareholder as the test variable. Consistent with our findings for the full sample and the subsample, the coefficients for industry-country average of Δ*Vote2* are significantly positive (significant at 1% level in Model (7) and 5% level in Model (8) and (9)), which suggests that the industry-country average change of the second largest shareholder has a positive impact on firm level long term debt. However, it is unlikely that an individual firm's long term debt can meaningfully affect industry-country average change of the second largest shareholder, which we believe can mitigate the endogeneity problems.

Next we will test the effect of an increase in power of the second largest shareholder on short term debt. We expect that a shift in power away from the dominant shareholder helps dampen the expropriation of private benefits by the dominant shareholder and lowers the cost of long term financing, which leads to less short term debt.

We report our multivariate regression results of short term debt for the full sample in Model (1) to (3) of Table 10.

[Insert Table 10 about here]

Like the regressions for long term debt, we test with the same independent variables here. Model (1) is the regression of short term debt on *ΔVote1* and *ΔVote2* by only controlling for year, industry and country fixed effects. Both coefficients of *ΔVote1* and *ΔVote2* are negative while only *ΔVote2* is significant at 1%. The regression results imply that without controlling for other firm characteristics the change in power of the second largest shareholder from 1996 to 2008 has a significantly negative effect on short term debt. Model (2) shows the regression of short term debt on *ΔVote1* and *ΔVote2* by controlling for other factors as well as fixed effects. The results

indicate that *ΔVote2* is still significantly negative at 1% level and the coefficient of *ΔVote1* is not significant. The multivariate regressions suggest that the shift in power towards the second largest shareholder has a significantly negative effect on firm's short term debt. An increase of the voting rights of the second largest shareholder from 1996 to 2008 is associated with a lower cost of long term financing, which leads to a decrease in short term debt. Short term debt requires the firm to pay out cash frequently and therefore hurts the benefits of small shareholders. The increase in power of the second largest shareholder helps reduce short term debt suggests that it can protect the benefits of small shareholders and mitigate agency problems, thus play an efficient role in internal governance (Attig et al., 2008). The weakly negative coefficient of *ΔVote1* is probably due to the shift from one type of agency problem (manager vs. shareholders) to another (dominant shareholder vs. small shareholders) and the pros and cons of the two types of agency problems are just about to be equal. In Model (3) we regress short term debt on *ΔVote2* and *ΔExcess1* while controlling for all the other factors. Accordingly, we expect *ΔExcess1* to be positively associated with short term debt. The results for Model (3) show that *ΔVote2* is consistent with Model (1) and (2) and is significantly negative at 1% level, which lends support to the effective role of MLS in better access to long term financing, reducing short term debt, and mitigating agency problems. We do not find any significant impact of the change of the excess of control rights of the largest shareholder on short term debt since *ΔExcess1* is not significant and only weakly negative.

Based on our results for short term debt, we find that an increase in power of the second largest shareholder has a significantly negative impact on firm's holding of short term debt: a shift in power from the dominant shareholder to the second largest shareholder from 1996 to 2008 is associated with a reduction of short term debt. The results support previous studies about the corporate governance role of MLS, which alleviates agency problems between the dominant shareholder and minority shareholders and therefore lowers the cost of long term financing (Lin et al., 2013). However, we cannot find significant relationship between the change of the voting rights of the largest shareholder and short term debt. The reason is probably that the benefit of having a dominant shareholder to monitor the manager is cancelled out by the side effect caused by this largest shareholder to expropriate the benefits of minority shareholders. Similar to what

we find for long term debt, we have not found significant results for the excess of the control rights of the dominant shareholder.

We try the following tests to address endogeneity problems. Firstly, we construct the subsample of 2008-2010 using the change of the voting rights of the second largest shareholder from 1996 to 2008 as the test variable. The results are shown in Model (4)-(6) of Table 10. In Model (4) where we regress Sdebt only on *ΔVote1* and *ΔVote2* without control variables, the coefficient of *ΔVote2* is not significant. When we add other firm characteristics control variables we find a significantly negative effect of the change in power of the second largest shareholder on future short term debt. Similar results are found for Model (6) in which we control for the change of the excess control rights of the largest shareholder. The tests with the dependent variables measured subsequent to 2008 show that the change of the voting rights of the second largest shareholder has a significantly negative impact on firm's future short term debt. Firms featuring an increase in power of the second largest shareholder dampen the incentives and ability of the dominant shareholder to extract private benefits from the minority shareholders, therefore reduce firms' future short term debt. Secondly, similar to what we do for long term debt, we also use the industry-country average change in power of the second large shareholder as the proxy of the shift in power away from the dominant shareholder, which are shown in Model (7)-(9). Consistent with our full and subsample results, we find that industry-country average change in power of the second large shareholder has a negative impact on short term debt, mitigating the concern that our results are outcome of the causality flowing from cost of long term debt financing to blockholder's decision to change ownership.

In conclusion, consistent with previous studies regarding to the effective role of MLS, we find that the shift in power towards the second largest shareholder has a positive impact on long term debt and it is negatively associated with short term debt. An increase in power of the second largest shareholder, which helps mitigate agency problems and improve internal governance, can reduce the cost of long term financing, lower interest rates and attract more long term debt. Meanwhile, we do not find significant relationship between the dominant shareholder and firm's debt structure.

5.4 Power of the Second Large Shareholder and Operation Management

As we argued in the hypotheses development, inventory can serve as a channel through which firm value is enhanced. Typically, McNaughton et al. (2001) document lower inventory as a way to lower the cost of storage and selling goods, attract new customers, and indirectly improve financial performance, which leads to a better firm performance. Since in the previous sections we demonstrate that a shift in power from the dominant shareholder to the second largest shareholder mitigates the agency problems between the dominant shareholder and minority shareholders and is positively associated with firm value, we propose that an increase in power of the second largest shareholder can monitor the dominant shareholder to implement more efficient management strategies to decrease inventory which thereby improve firm performance and increase firm valuation. Therefore, we expect the coefficient of *Inventory* to be negative, i.e. the higher the increase of the voting rights of the second largest shareholder, the lower inventory the firm has.

In Table 11 we present the regression results for the role of the change of the voting rights of the second largest shareholder on operation management.

[Insert Table 11 about here]

In Model (1) to (3) we test the impact of the shift in power away from the dominant shareholder on operation management with the full sample of 1996 to 2010. In Model (4) to (6) we replicate our regressions with the subsample of 2008-2010 and in Model (7)-(9) we use the industry-country average change in power of the second largest shareholder in place of firm level change to address endogeneity bias. In Model (1) we regress *Inventory* on only *ΔVote1 and ΔVote2. ΔVote2* is significantly negative at 1% while *ΔVote1* is positive at 1% level. This result shows that firms featuring an increase in power of the second largest shareholder have fewer inventories in order to improve the operation management efficiency. In Model (2) we add more control variables and find a consistent result. When there is an increase in power of the second largest shareholder, the firm will reduce its inventory. Our interpretation is that the increase of the controlling power of the second largest shareholder can enhance the monitoring role to restrict the benefit expropriations by the dominant shareholder so that they can take strategies to improve operation management which can serve as an important channel through which firms improve their operating performance and firm valuation. In Model (3) we regress *Inventory* on *ΔVote2*

and *ΔExcess1* with all the control variables. The results indicate that the shift in power towards the second largest shareholder has a negative impact on inventory in firms featuring an excess control of voting rights by the dominant shareholder.

In order to mitigate endogeneity problems, first we replicate the regressions with the subsample of future inventory from 2008 to 2010. Consistent with our full sample results, for all the three regressions in Model (4) to (6) inventory is negatively associated with *ΔVote2* at 1% level, which suggests that firms featuring a gain in controlling power of the second largest shareholder have significantly less future inventory which serves as a channel to enhance firm valuation and improve firm performance. Second, we replicate the regressions of the full sample with the industry-country average change in voting rights of the second largest shareholder in Model (7) to (9). In Model (7) we regress Inventory on industry-country average of *ΔVote1* and industry-country average of *ΔVote2* and find that industry-country average of *ΔVote2* is significantly negative at 1%, which is consistent with our findings for the full sample. However, when we add other control variables in Model (8) and (9), the negative impact of industry-country average of *ΔVote2* on inventory is washed away though it is still negative.

In a brief conclusion, consistent with previous literature which suggests inventory as a channel to indirectly enhance firm value through internal business processes, customer satisfaction and financial performance, we find supporting evidence that the shift in power towards the second largest shareholder, which weakens the controlling power of the dominant shareholder, is negatively associated with inventory. This means that firms featuring an increase of the controlling power of the second largest shareholder typically have lower inventory, largely due to the monitoring role of other large shareholders beyond the dominant shareholder to enforce the dominant shareholder to take more efficient operation management strategies. Such firms as having a lower inventory can lower their cost of storage, shorten their sales cycle, improve their customer satisfaction and value, and have a better financial performance, which leads to a better firm performance and a higher firm value.

5.5 Power of the Second Large Shareholder and Dividends Payout Ratio

Literature suggests that dividend is a very important and costly signal to outside shareholders about firm's future earnings and firm value. When investors see an increase of dividends, they

perceive this increase as a signal that the firm has a strong confidence about its better future earnings (Pettit, 1972; Brickley, 1983; Miller and Modigliani, 1961). Therefore, it is reasonable to think that markets prefer firms that pay higher dividends or firms that increase their dividends. A firm which has a strong confidence about its future and wants to deliver a positive signal to attract its outside investors can increase its dividends which can mitigate information asymmetry and convey prosperous future earnings information. A bulk of studies document that MLS firms can mitigate agency problems and improve internal governance through supporting better policies that are beneficial to small shareholders, as argued by Mishra (2011) and Bloch and Hege (2001), and in turn increase firm value and firm performance. Therefore, MLS can support higher dividends payout policies that alleviate agency problems and information asymmetry to attract more votes from the outside shareholders. Based on the above argument, we expect that when the controlling power of the second largest shareholder increases, it enhances the effective monitoring role of the second largest shareholder to dampen the benefit expropriations from minority shareholders, which therefore is associated with a higher dividends payout ratio that favours the benefits of minority shareholders. In the same manner as we test for the previous sections, we will first show our regression results for the full sample of 1996-2010 and second perform our robustness tests in order to address endogeneity problems.

Table 12 presents the relationship between the change of the voting rights of the second largest shareholder and dividends payout ratio. In Model (1) to (3) we use the full sample of 1996 to 2010 to test the effect of the change of the voting rights of the second largest shareholder on dividends payout ratio. In order to address endogeneity bias, Model (4) to (6) we test the effect of the change of the voting rights of the second largest shareholder from 1996 to 2008 on future dividends payout ratio using subsample from 2008 to 2010 while in Model (7) to (9) we replicate our regressions of the full sample with the industry-country average change in voting rights of the second largest shareholder as the main test variable.

[Insert Table 12 about here]

Consistent with our previous tests, we select firms which have at least one large shareholder with no smaller than 10% voting rights in 2008. In Model (1) we regress payout ratio on *ΔVote1 and ΔVote2* only without controlling for other firm characteristics except for fixed effects. The regression result shows that an increase in power of the second largest shareholder is positively

associated with payout ratio. In Model (2) we regress payout ratio on *ΔVote1 and ΔVote2* as well as other control variables including fixed effects. The results suggest that after controlling for other firm characteristics the shift in power towards the second largest shareholder is playing a positive role in firm's dividend policy. This implies that the second largest shareholder with an increase in its controlling power promotes a higher dividends payout ratio policy which to some extent mitigates agency problems and information asymmetry between the dominant shareholder and minority shareholders. In Model (3) we regress payout ratio on *ΔVote2* and *ΔExcess1* which captures the change of the excess control of the largest shareholder and other control variables. The coefficient is still significantly positive for *ΔVote2*, indicating that in firms featuring a largest shareholder, one standard deviation increase in the voting power of the second largest shareholder is associated with 17.891*0.001=0.018 increase in dividends payout ratio. However, no significant results are found for the dominant shareholder. Overall, regarding to the results of the full sample, we find a significantly positive relationship between the change in power of the second largest shareholder and dividends payout ratio.

In order to address the endogeneity issues, Model (4) presents the regression of payout ratio on *ΔVote1* and *ΔVote2* with subsample of 2008-2010 to examine the role of the change in voting rights of the second largest shareholder on firm's *future* dividends policies. *ΔVote2* is significantly positive at 1% level, suggesting that one standard deviation increase in the voting rights of the second largest shareholder from 1996 to 2008 leads to 0.004*17.891=0.072 increase in dividends payout ratio in the future. In Model (5) we add other control variables and the coefficient for *ΔVote2* is still significantly positive at 1% level. The results are also consistent with previous studies which document that the second largest shareholder who compete for more control and monitor the dominant shareholder tend to support firm policies, say higher dividends payout ratio, that favour small shareholders which in turn improve corporate governance and firm performance (Faccio et al., 2001; Pagano and Röell, 1998; Bloch and Hege, 2001). In Model (6) we regress payout ratio on *ΔVote2* and *ΔExcess1* and other control variables. The testing results for *ΔVote2* are still significantly positive at 1%, confirming the positive role of MLS on firm's dividends payout policies. In Model (7) to (9) we use the industry-country average change in power of the second large shareholder as the proxy of the shift in power away from the dominant shareholder to help alleviate endogeneity concern embedded in the tests. We

find that when we use industry-country average of *ΔVote1* and industry-country average of *ΔVote2* as the only testing variables without other control variables, industry-country average of *ΔVote2* is significantly positively associated with dividends payout ratio, which supports our previous findings about the effective internal governance role of MLS. On the other hand, we do not find significant effect of industry-country average of *ΔVote2* for Model (8) and (9) when adding other control variables.

In a brief conclusion, based on our testing results we find that an increase in power of the second largest shareholder is positively associated with dividends payout ratio, which is consistent with previous studies in two ways. First, the second largest shareholder with a gain in his/her controlling power can mitigate agency problems and information asymmetry through supporting beneficial policies that favour small shareholders which in turn increase firm performance. Second, dividend is a very expensive signal for future earnings and firms featuring MLS have more confidence for their futures so that they can pay higher dividends to convey information about their better future earnings.

6. Robustness Tests

We explore whether our results remain reliable in different extensive sensitivity tests. Specifically, we test whether our results are sensitive to different measurements of the change of voting rights of shareholders, different time periods of study, enlarged samples consist of MLS-SLS firms, industry-country average change in voting power of the second largest shareholder with the sample of firms that exist in both 1996 and 2008, and change of relative power as the test variable.

6.1 Different Measurements Regarding the Change of Voting Rights of Shareholders

In our main tests, we use the change of the voting rights of the largest and second largest shareholders. Actually, the same percentage point change in the voting power of the second largest shareholders who have different level of control powers in 1996 can have significantly different impact on firm value, operating performance and capital structure. For instance, the effect of the change of the second largest shareholder can be different between the change from 12% to 22% and the change from 32% to 42%, which both have 10% change of voting rights. Therefore, we use the percentage change of the voting rights of shareholders to better capture the impact of the change in power of the second largest shareholder. Specifically, the percentage change of ownership structure is the difference of voting rights shareholders between 1996 and 2008 divided by the voting rights of shareholders in 1996. We run the same regressions and find that our results are robust to the percentage change of the voting rights of MLS.

6.2 Different Time Periods of Sample

In our main regressions, we use our whole sample from 1996 to 2010 to test the effect of the change in power of the second largest shareholder on firm value and other characteristics. In order to partially solve the endogeneity issues we also use a subsample from 2008 to 2010. Both samples suggest a positive internal governance role of MLS. We would like to examine whether our results are stable when we use a different time period of sample. Therefore, we use a subsample from 1996 to 2008 to test the change in power of the second largest shareholder on firm valuation, operating performance and capital structure. The results show that when we use 1996-2008 as the subsample, the increase in power of the second largest shareholder still has a positive impact on firm-level governance and mitigates agency problems.

6.3 Testing with Enlarged Samples Consist of MLS-SLS Firms

In our main samples, we only consider firms that have MLS in 2008 because Carney and Child (2012) only record large shareholders with voting rights of at least 10%. Therefore, our main samples contain SLS-MLS, and MLS-MLS firms. In this section we intend to enlarge our sample size by including firms that feature MLS in 1996 but turn into SLS in 2008. By including MLS-SLS firms, we are actually investigating whether such type of firms performs worse or their firm values decrease when they change from MLS to SLS. In order to include this type of firms, we replace the voting rights of the second largest shareholder with 0 if they are missing, provided that the firms are MLS in 1996 and SLS in 2008. After we enlarge our samples to include a third type of firms, we replicate the regressions for the full sample period of 1996-2010 and subsample periods of 1996-2008 and 2008-2010. For the full sample of 1996-2010 and subsample of 1996-2008, we find consistent and significant results for *ΔVote2*, indicating that the increase of controlling power of the second largest shareholder play a positive role in mitigating agency problems and increasing firm value. Our results for subsample period of 2008-2010 are consistent but not as significant as our full samples are. However, since our enlarged samples are merely a approximation for the voting rights of the second largest shareholder in 2008, the insignificance of our results might be affected by this approximation.

6.4 Industry-Country Average Change in Voting Power of the Second Largest Shareholder with the Sample of Firms that Exist in Both 1996 and 2008

In our main tests, we use industry-country average change in the voting rights of the second large shareholder as the test variable to address endogeneity issues with an enlarged sample consist of firms that might or might not exist in both 1996 and 2008, i.e. the firms might exist in either 1996 or 2008 or both years. In this section, we use a different sample that consists of firms which exist in both 1996 and 2008 to test whether our main results still hold.

We use industry-country average change in the voting rights of the second large shareholder (industry-country average ΔVote2) as the test variable to test whether it has a significant impact on firm value and operating performance for firms that exist in both 1996 and 2008. Table 13 presents the multivariate regression results. We find that for Tobin's Q, ROA, ROE and Long term debt, the results remain the same since industry-country average ΔVote2 is significantly and positively associated with Tobin's Q, ROA, ROE and Long term debt. Meanwhile, the results for

Short term debt are only significant for Model (10) and Model (12). However, the results for Inventory and Dividends payout ratio are consistent but not significant.

6.5 Change of Relative Power as the Test Variable

In our main tests, we use the change in voting power of the second large shareholder as the main test variable. We consider an increase in voting power of the second large shareholder weakens the controlling power of the largest shareholder. In this section we use the change in relative power of the second large shareholder as the test variable to investigate how the change in relative power of the second large shareholder compared to the largest shareholder affects firm valuation and operating performance. Specifically, we define the change in relative power as the change of the ratio of Vote2 to Vote1 from 1996 to 2008. Table 14 presents the testing results of the change in relative power.

We find that Change of Relative Power is significantly and positively associated with Tobin's Q without controlling for other firm specific variables. However, it becomes insignificant after adding other firm characteristics although the sign remains positive. The results for ROA and ROE remain the same, suggesting that the change in relative power of the second large shareholder has a positive impact on operating performance. We do not find significant results for Short term debt although the results remain negative. However, significant and positive results are found for Long term debt, which indicates that an increase in the relative power of the second large shareholder leads to a better access to long term debt financing. Similar to what we find for Tobin's Q, when testing for Dividends payout ratio the coefficient of change in relative power becomes insignificant after we control for other firm specific variables. The results for Inventory remain significant and negative, consistent with the main results, suggesting that an increase in change of the relative power is associated with more efficient operation management.

7. Conclusion

This thesis examines the effect of the evolution of ownership structure on corporate strategies, and corporate financial and operating performance. In particular, we study whether the empowerment of the second largest shareholder, accordingly impediments to the exercise of the power of the dominant shareholder mitigates agency problems and reduces expropriation of minority investors that often fulfills sole interests of the dominant shareholder. More specific goal of the thesis is to uncover whether the shift in power away from the dominant shareholder towards the second largest shareholder plays an effective governance role, and thereby positively affecting firm valuation and operating performance. Furthermore, different from previous studies, we explore important channels through which the increase in power of the second largest shareholder affect firm value and performance, including the firm's financing policies and access to finance, a more effective operation management, and a higher dividend payout ratio.

First, we find that the increase in the voting rights of the second largest shareholder from 1996 to 2008 has a strong and positive impact on firm valuation (Tobin's Q) and operating performance (ROA and ROE), which suggests that an increase in power of the second largest shareholder helps mitigate agency problems between the controlling owner and minority shareholders. This finding is consistent with the majority of literature that shows a positive relationship between MLS and firm value and performance (Maury and Pajuste, 2005; Gutiérrez and Tribó, 2004; Attig et al., 2009). Second, we explore possible channels through which the increase in power of the second largest shareholder can mitigate agency problems and improve firm performance and valuation. In that, first, we find that the shift in power towards the second largest shareholder is associated with a higher reliance on long term debt as opposed to short term debt financing, suggesting a better access to long term financing. We interpret this finding as an evidence that the increase in the power of the second large shareholder helps mitigate agency problems between the controlling shareholder and the debt holders (financiers), thus making it possible to access lower interest long term debt perhaps from a broader group of financiers (both bank and public). This finding is consistent with previous literature that shows the existence and the power of MLS associated with lower cost of capital (Attig et al., 2008). Also, this finding is consistent with Lin et al. (2013) which suggest that firms with less monitoring needs or less agency problems should borrow more from public investors which typically have longer debt maturity

than bank debt. Second, we find that an increase in power of the second largest shareholder is associated with a decrease in proportion of inventory in the balanced sheet, an indicator of improved operational efficiency. The finding is consistent with literatures which suggest that a lower inventory can serve as a channel which leads to a higher firm value and better performance (Bryant et al., 2004; McNaughton et al., 2001). Finally, we show that firms featuring an increase in power of the second largest shareholder pay higher dividends. This evidence is consistent with literature in two ways. First, firms which pay higher dividends generally have a better perspective about their future earnings and firm value, which is consistent with our finding about the role of the increase in power of the second largest shareholder in mitigating agency problems and enhancing firm value. Second, MLS who compete for control can promote policies that are beneficial to small shareholders, say a higher dividends payout policy (reducing possibility of agency cost of free cash flow, such as empire building), to attract their votes, which leads to an increase in firm valuation.

This thesis contributes to the literature in three ways. First, we complement the existing empirical literature regarding the internal governance role of MLS by showing positive firm value implications of the empowerment of the second large shareholder. Second, this thesis is the first to test the effect of evolution of voting power of the second largest shareholder on firm value and operating performance. Specifically, we discover several channels through which MLS affect firm value and performance, including better access to long term finance, improving operation efficiency as evidence in lower inventory ratio, and supporting distribution policies that put more cash in the hands of shareholders (i.e. higher dividends).

Our results are robust to corrections to some endogeneity issues in multiple ways as we describe in section 5, yet, there are limitations that our findings should be taken cautiously. In particular, our dataset lacks the time series of ownership structures, which precludes us from testing the effect of the change of voting rights of shareholders on an annual basis. This also precludes us to use some powerful dynamic panel tests to mitigate omitted variable problems more effectively. Future research has an opportunity to reproduce ownership data consistent with Claessens et al. (2000) for several years to allow advancing future research in this line.

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Appendix: A Detailed Definitions of Key Variables

Variable Names	Definitions	Source
Main Dependent Variables		
Firm Valuation		
Tobin's Q	The market value of equity plus the book value of total assets minus the book value of equity, then all divided by the book value of total assets.	WorldScope Database, Author's estimation
Operating Performance		
ROA	net income divided by total assets*100	WorldScope Database, Author's estimation
ROE	Net income divided by shareholder's equity*100	WorldScope Database, Author's estimation
Capital Structure		
Ldebt	the ratio of a firm’s long term debt to its total debt	WorldScope Database, Author's estimation
Sdebt	the ratio of a firm’s short term debt to its total debt	WorldScope Database, Author's estimation
Operation Management		
Inventory	Total inventories divided by total assets*100	WorldScope Database, Author's estimation
Dividend Policy		

Dividends Payout Ratio	Dividends Per Share / Earnings Per Share	WorldScope Database, Author's estimation
	Main Independent Variables	
Ownership Structure Variables		
MLS	Equals to 1 if there is at least one second largest shareholder with voting rights of at least 10% besides the largest shareholder, and 0 otherwise.	Claessens et al. (2000), Carney and Child (2010), author's estimation
SLS	Equals to 1 if there is only one large shareholder with voting rights of at least 10%, and 0 otherwise.	Claessens et al. (2000), Carney and Child (2010), author's estimation
WH	Equals to 1 if there is no large shareholder with voting rights of at least 10%, and 0 otherwise.	Claessens et al. (2000), Carney and Child (2010), author's estimation
ΔVote1	the change of the voting rights of the largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010), author's estimation
ΔVote2	the change of the voting rights of the second largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010)
ΔExcess1	the change of the excess control of the largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010)
Percent ΔVote1	the percentage change of the voting rights of the largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010), author's estimation

Percent ΔVote2	the percentage change of the voting rights of the second largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010), author's estimation
Percent ΔExcess1	The percentage change of the excess control of the largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010), author's estimation
Industry-Country Average of ΔVote1	Industry-Country average change of the voting rights of the largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010), author's estimation
Industry-Country Average of ΔVote2	Industry-Country average change of the voting rights of the second largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010), author's estimation
Industry-Country Average of ΔExcess1	Industry-Country average change of the excess control of the largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010), author's estimation
Change of Relative Power	Change of the ratio of voting rights of the second largest shareholder to voting rights of the largest shareholder from 1996 to 2008	Claessens et al. (2000), Carney and Child (2010), author's estimation
Control Variables		

Firm Size	Natural logarithm of total assets	WorldScope Database, Author's estimation
Leverage	the ratio of total debt to total assets.	WorldScope Database, Author's estimation
Sales Growth	(Current Year's Net Sales or Revenues / Last Year's Total Net Sales or Revenues - 1) * 100	WorldScope Database, Author's estimation
Capital Expenditure	Capital Expenditures / Average Total Assets * 100	WorldScope Database, Author's estimation

Note: In order to avoid outliers from dragging our results, we winsorize the dependent variables and all the independent control variables at 1th percentile and 99th percentile, including Tobin's Q, ROA, ROE, Ldebt, Sdebt, inventory, dividends payout ratio, firm size, leverage, sales growth, and capital expenditure. For firm size, leverage, sales growth, and capital expenditure, we use lagged values instead of contemporaneous values to control for the impact of previous values on current dependent variables. Finally, apart from the above control variables, we also add year, industry, and country dummy variables in order to control for year, industry, and country fixed effects.

Table 1
Summary Statistics of Key Variables

Variable	N	Mean	Standard Deviation	Q1	Median	Q3
Panel A: Dependent Variables						
Tobin's Q	5679	1.226	0.636	0.890	1.059	1.342
ROA	5649	5.064	7.079	1.800	4.290	8.090
ROE	5658	6.895	9.744	2.850	6.130	10.690
Ldebt	5380	0.524	0.316	0.271	0.571	0.791
Sdebt	5303	0.484	0.313	0.216	0.438	0.739
Payoutratio	5719	0.257	0.256	0.000	0.208	0.417
Inventory	5105	10.799	11.191	2.449	8.022	15.122
Panel B: Ownership Structure Variables						
ΔVote1	5719	6.609	22.488	-8.480	4.150	21.590
ΔVote2	852	13.740	17.891	5.000	10.980	20.800
ΔExcess1	5719	0.296	10.201	-3.860	0.000	0.030
Panel C: Control Variables						
Lagged Size	5691	14.184	1.925	12.754	13.996	15.668
Lagged Leverage	5659	0.270	0.211	0.087	0.247	0.409
Lagged Sales Growth	5267	0.113	0.341	-0.032	0.067	0.191
Lagged Capital Expenditure	5102	0.058	0.071	0.010	0.035	0.078

The table presents the summary descriptive statistics for dependent variables, ownership structure variables, and control variables. The sample includes firms from 9 East Asian countries assembled in Claessens et al. (2000) and Carney and Child (2012).

Table 2
Pearson Correlation Matrix

Variables	Tobin's Q	ROA	ROE	Ldebt	Sdebt	Payoutratio	Inventory	ΔVote1	ΔVote2	ΔExcess1	Lagged Size	Lagged Leverage	Lagged Sales Growth	Lagged Cap. Expenditure
Tobin's Q	1													
ROA	0.35	1												
ROE	0.32	0.94	1											
Ldebt	-0.02	0.00	-0.05	1										
Sdebt	0.01	-0.01	0.04	-1.00	1									
Payoutratio	0.12	0.23	0.23	0.00	-0.01	1								
Inventory	-0.02	0.01	0.02	-0.20	0.23	-0.05	1							
ΔVote1	-0.02	0.02	0.03	0.02	-0.01	-0.01	0.04	1						
ΔVote2	0.15	0.13	0.15	0.12	-0.05	0.20	-0.16	0.30	1					
ΔExcess1	0.01	0.02	0.03	-0.05	0.06	0.02	-0.01	0.10	0.26	1				
Lagged Size	-0.02	-0.17	-0.12	0.22	-0.24	0.08	-0.15	-0.15	-0.12	-0.11	1			
Lagged Leverage	-0.06	-0.16	-0.21	0.21	-0.23	-0.21	0.00	-0.11	-0.28	-0.14	0.12	1		
Lagged Sales Growth	0.03	0.08	0.08	0.02	-0.02	-0.02	0.04	0.01	-0.06	0.00	-0.04	0.03	1	
Lagged Cap. Expenditure	0.08	0.09	0.07	0.11	-0.12	-0.04	-0.10	-0.04	-0.08	-0.03	-0.05	0.13	0.20	1
N	5679	5649	5658	5380	5303	5719	5105	5719	852	5719	5691	5659	5267	5102

The table presents the pairwise correlation coefficients of our key variables. The sample includes firms from 9 East Asian countries assembled in Claessens et al. (2000) and Carney and Child (2012).

Table 3
Summary of The Number of Firms by Year and Country

	Exist in both 1996 and 2008	Exist only in 1996	Exist only in 2008	Subtotal
Hong Kong	74	147	63	284
% of total	2.75	5.46	2.34	10.54
Indonesia	46	61	65	172
% of total	1.71	2.26	2.41	6.38
Japan	69	810	63	942
% of total	2.56	30.07	2.34	34.97
Malaysia	33	109	114	256
% of total	1.22	4.05	4.23	9.50
Philippines	40	35	60	135
% of total	1.48	1.30	2.23	5.01
Singapore	38	95	77	210
% of total	1.41	3.53	2.86	7.80
South Korea	47	127	85	259
% of total	1.78	4.71	3.16	9.65
Taiwan	24	86	133	243
% of total	0.89	3.19	4.94	9.02
Thailand	33	60	99	192
% of total	1.22	2.23	3.67	7.13
Subtotal	403	1531	759	2693
% of total	15.03	56.79	28.17	100

This table presents the summary of the number of firms by country and year. The columns are the number of firms that exist in both 1996 and 2008, only exist in 1996 and only exist in 2008 by country, respectively. The last column depicts the total number of firms for each country in our full sample.

Table 4
The Change of The Ownership Structures of The Sample by Year and Country

	SLS				MLS				WH			
	1996	2008	Change	Change%	1996	2008	Change	Change%	1996	2008	Change	Change%
Hong Kong	157	101	-56	-35.67	64	27	-37	-57.81	0	9	9	-
% of total	8.11	8.68			3.31	2.32			0	0.77		
Indonesia	53	74	21	39.62	53	32	-21	-39.62	1	5	4	400.00
% of total	2.74	6.36			2.74	2.75			0.05	0.43		
Japan	442	45	-397	-89.82	61	10	-51	-83.61	376	76	-300	-79.79
% of total	22.84	3.87			3.15	0.86			19.43	6.53		
Malaysia	60	113	53	88.33	81	30	-51	-62.96	1	4	3	300.00
% of total	3.10	9.71			4.19	2.58			0.05	0.34		
Philippines	30	65	35	116.67	44	33	-11	-25.00	1	2	1	100.00
% of total	1.55	5.58			2.27	2.84			0.05	0.17		
Singapore	47	82	35	74.47	83	23	-60	-72.29	3	10	7	233.33
% of total	2.43	7.04			4.29	1.98			0.16	0.86		
South Korea	105	93	-12	-11.43	40	4	-36	-90.00	30	36	6	20.00
% of total	5.43	7.99			2.07	0.34			1.55	3.09		
Taiwan	50	60	10	20.00	55	8	-47	-85.45	5	89	84	1680.00
% of total	2.58	5.15			2.84	0.69			0.26	7.65		
Thailand	12	64	52	433.33	80	29	-51	-63.75	1	39	38	3800.00
% of total	0.62	5.50			4.13	2.49			0.05	3.35		
Subtotal	956	697	-259	-27.09	561	196	-365	-65.06	418	270	-148	-35.41
% of total	49.41	59.88			28.99	16.84			21.60	23.20		

The table presents the change of the number of firms for each type of ownership structure from 1996 to 2008 by country. For example, in 1996 Hong Kong has 157 firms featuring SLS and in 2008 it has 101 SLS firms and the percentage change is -35.67%. The firms do not have to exist in both 1996 and 2008. There are supposed to be overlaps between some categories because firms might change their ownership structures over time.

Table 5

The Change of Ownership Structures of The Companies That Exist in Both 1996 and 2008 by Country

Ownership Structure in 1996	SLS			MLS			WH			Subtotal
Ownership Structure in 2008	SLS	MLS	WH	SLS	MLS	WH	SLS	MLS	WH	
Hong Kong	46	7	2	11	7	1	0	0	0	74
% of total	11.39	1.73	0.50	2.72	1.73	0.25	0.00	0.00	0.00	
Indonesia	18	4	3	15	5	1	0	0	0	46
% of total	4.46	0.99	0.74	3.71	1.24	0.25	0.00	0.00	0.00	
Japan	12	1	17	0	0	0	3	1	34	68
% of total	2.97	0.25	4.21	0.00	0.00	0.00	0.74	0.25	8.42	
Malaysia	11	3	0	13	5	1	0	0	0	33
% of total	2.72	0.74	0.00	3.22	1.24	0.25	0.00	0.00	0.00	
Philippines	15	5	0	11	8	0	0	1	0	40
% of total	3.71	1.24	0.00	2.72	1.98	0.00	0.00	0.25	0.00	
Singapore	9	3	0	21	2	1	2	0	0	38
% of total	2.23	0.74	0.00	5.20	0.50	0.25	0.50	0.00	0.00	
South Korea	23	1	5	8	0	2	5	0	3	47
% of total	5.69	0.25	1.24	1.98	0.00	0.50	1.24	0.00	0.74	
Taiwan	5	1	5	6	0	6	1	0	0	24
% of total	1.24	0.25	1.24	1.49	0.00	1.49	0.25	0.00	0.00	
Thailand	2	0	3	16	6	6	0	0	0	33
% of total	0.50	0.00	0.74	3.96	1.49	1.49	0.00	0.00	0.00	
Subtotal	141	25	35	101	33	18	11	2	37	403
% of total	34.90	6.44	8.66	25.00	8.17	4.46	2.72	0.50	9.16	100.00

The table presents the number of firms for each category of ownership structure changes for firms that exist in both 1996 and 2008 by country. We divide the firms into nine categories: firms that remain SLS over time (SLS-SLS), firms that change from SLS to MLS (SLS-MLS), firms that change from SLS to widely-held (WH) (SLS-WH), firms that change from MLS to SLS (MLS-SLS), firms that remain MLS from 1996 to 2008 (MLS-MLS), firms that become WH from MLS (MLS-WH), firms that change from WH to SLS (WH-SLS), firms that change from WH to MLS (WH-MLS), and firms that remain WH over time (WH-WH). For example, for Hong Kong there is 46 firms that remain SLS over time 7 that change from SLS to MLS and there is no firms that change from WH to SLS.

Table 6
Power of the Second Large Shareholder and Firm Valuation

VARIABLES	(1) Tobin's Q	(2) Tobin's Q	(3) Tobin's Q	(4) Tobin's Q	(5) Tobin's Q	(6) Tobin's Q	(7) Tobin's Q	(8) Tobin's Q	(9) Tobin's Q
ΔVote1	-0.006***	-0.000		-0.004	0.007				
	(-3.02)	(-0.13)		(-0.83)	(1.32)				
ΔVote2	0.011***	0.003***	0.003***	0.009***	0.010***	0.010***			
	(7.18)	(2.83)	(2.80)	(2.70)	(2.79)	(2.94)			
ΔExcess1			0.002			0.012**			
			(1.07)			(2.36)			
Industry-Country Average of ΔVote1							0.004***	0.001	
							(3.23)	(0.84)	
Industry-Country Average of ΔVote2							0.005***	0.001***	0.001***
							(6.00)	(3.21)	(4.12)
Industry-Country Average of ΔExcess1									0.001
									(1.08)
Lag Firm Size		-0.006	0.003		0.308***	0.315***		0.008*	0.008**
		(-0.35)	(0.21)		(4.55)	(5.04)		(1.65)	(2.06)
Lag Leverage		0.218**	0.215**		-1.398***	-1.099**		0.096**	0.098***
		(2.52)	(2.49)		(-2.79)	(-2.33)		(2.25)	(3.57)
Lag Sales Growth		-0.012	-0.013		-0.145	-0.165		-0.024	-0.024*
		(-0.29)	(-0.31)		(-1.00)	(-1.16)		(-1.35)	(-1.75)
Lag Capital Expenditure		-0.385*	-0.381*		2.008	1.623		-0.127	-0.126
		(-1.68)	(-1.66)		(1.60)	(1.31)		(-1.11)	(-1.45)
Lag Tobin's Q§		0.752***	0.751***		0.211**	0.200**		0.767***	0.767***
		(30.61)	(30.60)		(2.58)	(2.49)		(34.01)	(86.26)

Constant	0.903***	-0.103	-0.212	0.741*	-1.857*	-2.359**	1.642***	-0.209*	-0.178
	(4.94)	(-0.38)	(-0.73)	(1.89)	(-1.96)	(-2.44)	(15.79)	(-1.66)	(-1.58)
Observations	849	751	751	168	156	156	5152	4378	4378
R-squared	0.382	0.745	0.745	0.555	0.652	0.663	0.139	0.685	0.685
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between the change in voting rights of the second largest shareholder and firm valuation. Model (1)-(3) are the whole sample period from 1996 to 2010. Model (4)-(6) are the subsample period from 2008-2010. Model (7)-(9) are the full sample with the industry-country average change of the voting rights of the second largest shareholder as the test variable.§: In Model (1) to (3) lag Tobin's Q is *lagged one period of Tobin's Q*, while in Model (4) to (6) lag Tobin's Q is *the change of Tobin's Q from 1996 to 2008*. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 7
Power of the Second Large Shareholder and Operating Performance (ROA)

VARIABLES	(1) ROA	(2) ROA	(3) ROA	(4) ROA	(5) ROA	(6) ROA	(7) ROA	(8) ROA	(9) ROA
ΔVote1	-0.015	-0.021		0.029	0.120***				
	(-0.67)	(-0.88)		(0.65)	(2.82)				
ΔVote2	0.090***	0.056***	0.052***	0.094**	0.102***	0.118***			
	(4.69)	(2.87)	(2.74)	(2.54)	(3.32)	(3.88)			
ΔExcess1			-0.003			0.093**			
			(-0.10)			(2.15)			
Industry-Country Average of ΔVote1							-0.045***	-0.028	
							(-3.11)	(-1.55)	
Industry-Country Average of ΔVote2							0.035***	0.018***	0.014**
							(4.95)	(2.73)	(2.15)
Industry-Country Average of ΔExcess1									0.016
									(0.76)
Lag Firm Size		-0.318	-0.241		2.623***	2.263***		0.174**	0.197**
		(-1.08)	(-0.78)		(4.55)	(4.13)		(2.00)	(2.55)
Lag Leverage		-1.417	-1.531		-17.112***	-12.564***		-2.575***	-2.474***
		(-0.87)	(-0.94)		(-3.93)	(-2.99)		(-3.30)	(-4.39)
Lag Sales Growth		0.888	0.891		-0.568	-0.732		0.754**	0.761***
		(1.20)	(1.20)		(-0.46)	(-0.59)		(2.20)	(2.74)
Lag Capital Expenditure		-1.412	-1.189		27.876**	22.036**		0.806	0.947
		(-0.34)	(-0.29)		(2.61)	(2.02)		(0.36)	(0.55)
Lag ROA		0.397***	0.397***		0.427***	0.428***		0.393***	0.394***
		(10.78)	(10.75)		(8.02)	(7.94)		(14.02)	(25.93)
Constant	4.701	8.066	8.137	3.769	-20.884**	-23.689***	9.332***	0.357	0.212

	(1.29)	(1.63)	(1.54)	(0.55)	(-2.58)	(-2.77)	(4.43)	(0.15)	(0.09)
Observations	839	750	750	165	160	160	5117	4414	4414
R-squared	0.287	0.419	0.418	0.598	0.779	0.773	0.112	0.265	0.265
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between the change in voting rights of the second largest shareholder and operating performance (ROA). Model (1)-(3) are the whole sample period from 1996 to 2010. Model (4)-(6) are the subsample period from 2008-2010. Model (7)-(9) are the full sample with the industry-country average change of the voting rights of the second largest shareholder as the test variable.§: In Model (1) to (3) lag ROA is *lagged one period of ROA*, while in Model (4) to (6) lag ROA is *the change of ROA from 1996 to 2008*. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 8
Power of the Second Large Shareholder and Operating Performance (ROE)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	ROE	ROE	ROE	ROE	ROE	ROE	ROE	ROE	ROE
ΔVote1	-0.018	-0.032		0.031	0.144**				
	(-0.59)	(-0.99)		(0.52)	(2.58)				
ΔVote2	0.146***	0.085***	0.079***	0.129***	0.138***	0.160***			
	(5.68)	(3.28)	(3.15)	(2.72)	(3.42)	(4.08)			
ΔExcess1			-0.011			0.104*			
			(-0.32)			(1.86)			
Industry-Country Average of ΔVote1							-0.067***	-0.057***	
							(-3.34)	(-2.84)	
Industry-Country Average of ΔVote2							0.060***	0.031***	0.024***
							(6.18)	(3.27)	(2.63)
Industry-Country Average of ΔExcess1									0.008
									(0.29)
Lag Firm Size		-0.302	-0.226		3.279***	2.847***		0.277***	0.312***
		(-0.77)	(-0.55)		(4.37)	(3.96)		(2.62)	(2.94)
Lag Leverage		-2.999	-3.149		-22.257***	-17.243***		-4.607***	-4.447***
		(-1.37)	(-1.44)		(-3.91)	(-3.13)		(-5.88)	(-5.65)
Lag Sales Growth		0.929	0.934		-0.600	-0.823		1.012***	1.025***
		(0.94)	(0.94)		(-0.37)	(-0.51)		(2.66)	(2.69)
Lag Capital Expenditure		-1.308	-0.993		38.030***	32.311**		0.651	0.84
		(-0.24)	(-0.18)		(2.72)	(2.27)		(0.28)	(0.36)
Lag ROE		0.402***	0.402***		0.440***	0.440***		0.436***	0.438***
		(11.03)	(11.01)		(8.22)	(8.13)		(28.89)	(29.00)
Constant	2.894	2.782	4.248	4.703	-25.807**	-29.103**	12.895***	-0.389	-1.084

	(0.95)	(0.42)	(0.76)	(0.52)	(-2.44)	(-2.59)	(4.44)	(-0.13)	(-0.35)
Observations	846	749	749	168	160	160	5102	4386	4386
R-squared	0.268	0.416	0.416	0.59	0.78	0.775	0.1	0.291	0.289
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between the change in voting rights of the second largest shareholder and operating performance (ROE). Model (1)-(3) are the whole sample period from 1996 to 2010. Model (4)-(6) are the subsample period from 2008-2010. Model (7)-(9) are the full sample with the industry-country average change of the voting rights of the second largest shareholder as the test variable.§: In Model (1) to (3) lag ROE is *lagged one period of ROE*, while in Model (4) to (6) lag ROE is *the change of ROE from 1996 to 2008*. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 9
Power of the Second Large Shareholder and Capital Structure (Long Term Debt)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	Ldebt	Ldebt	Ldebt	Ldebt	Ldebt	Ldebt	Ldebt	Ldebt	Ldebt
ΔVote1	0.001	0.000		0.001	0.001				
	(0.72)	(0.48)		(0.25)	(0.76)				
ΔVote2	0.006***	0.004***	0.004***	0.000	0.008***	0.009***			
	(5.19)	(3.55)	(3.67)	(0.18)	(3.86)	(3.96)			
ΔExcess1			0.001			0.002			
			(1.01)			(0.98)			
Industry-Country Average of ΔVote1							-0.000	0.000	
							(-0.77)	(0.10)	
Industry-Country Average of ΔVote2							0.002***	0.001**	0.001**
							(5.50)	(2.36)	(2.38)
Industry-Country Average of ΔExcess1									-0.001
									(-0.94)
Lag Firm Size		0.023**	0.025**		0.137***	0.136***		0.016***	0.016***
		(1.97)	(2.14)		(5.16)	(5.37)		(6.16)	(6.06)
Lag Leverage		0.039	0.043		-0.018	0.068		0.081***	0.079***
		(0.61)	(0.67)		(-0.10)	(0.40)		(4.24)	(4.15)
Lag Sales Growth		0.021	0.02		0.096*	0.094*		0.021**	0.021**
		(0.72)	(0.71)		(1.84)	(1.80)		(2.20)	(2.18)
Lag Capital Expenditure		0.077	0.073		1.499***	1.411***		0.176***	0.175***
		(0.51)	(0.48)		(3.01)	(2.82)		(3.01)	(2.98)
Lag Long Term Debt		0.522***	0.521***		0.485***	0.490***		0.654***	0.653***
		(14.63)	(14.57)		(7.70)	(7.77)		(54.76)	(54.75)
Constant	0.162*	-0.316	-0.374*	0.438**	-2.025***	-0.51	0.612***	-0.182**	-0.171*

	(1.78)	(-1.63)	(-1.88)	(2.26)	(-4.80)	(-1.59)	(6.98)	(-2.03)	(-1.92)
Observations	736	658	658	147	139	139	4820	4090	4090
R-squared	0.375	0.552	0.553	0.392	0.757	0.758	0.13	0.543	0.544
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between the change in voting rights of the second largest shareholder and Capital Structure (Long Term Debt). Model (1)-(3) are the whole sample period from 1996 to 2010. Model (4)-(6) are the subsample period from 2008-2010. Model (7)-(9) are the full sample with the industry-country average change of the voting rights of the second largest shareholder as the test variable.§: In Model (1) to (3) lag Long Term Debt is *lagged one period of Long Term Debt*, while in Model (4) to (6) lag Long Term Debt is *the change of Long Term Debt from 1996 to 2008*. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 10
Power of the Second Large Shareholder and Capital Structure (Short Term Debt)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	Sdebt	Sdebt	Sdebt	Sdebt	Sdebt	Sdebt	Sdebt	Sdebt	Sdebt
ΔVote1	-0.001	-0.000		-0.000	-0.002				
	(-0.78)	(-0.46)		(-0.17)	(-0.96)				
ΔVote2	-0.004***	-0.003***	-0.003***	0.000	-0.007***	-0.008***			
	(-3.51)	(-2.71)	(-2.77)	(0.01)	(-3.53)	(-3.61)			
ΔExcess1			-0.001			-0.002			
			(-0.73)			(-0.88)			
Industry-Country Average of ΔVote1							0.001**	0.000	
							(2.03)	(0.51)	
Industry-Country Average of ΔVote2							-0.002***	-0.001**	-0.001**
							(-5.31)	(-2.30)	(-2.22)
Industry-Country Average of ΔExcess1									0.001
									(0.94)
Lag Firm Size		-0.024**	-0.026**		-0.141***	-0.137***		-0.017***	-0.017***
		(-2.07)	(-2.14)		(-5.40)	(-5.50)		(-6.35)	(-6.31)
Lag Leverage		-0.016	-0.019		0.014	-0.078		-0.091***	-0.090***
		(-0.25)	(-0.30)		(0.08)	(-0.46)		(-4.75)	(-4.69)
Lag Sales Growth		-0.015	-0.014		-0.123**	-0.117**		-0.020**	-0.020**
		(-0.50)	(-0.46)		(-2.32)	(-2.24)		(-2.14)	(-2.13)
Lag Capital Expenditure		-0.087	-0.085		-1.458***	-1.378***		-0.184***	-0.183***
		(-0.58)	(-0.56)		(-2.97)	(-2.78)		(-3.13)	(-3.11)
Lag Short Term Debt		0.532***	0.531***		0.491***	0.494***		0.644***	0.643***
		(14.70)	(14.69)		(7.78)	(7.82)		(52.83)	(52.82)
Constant	0.839***	0.577***	0.677***	1.059***	2.287***	2.342***	0.400***	0.543***	0.539***

	(9.13)	(3.02)	(3.87)	(4.99)	(6.43)	(6.39)	(4.61)	(5.98)	(5.95)
Observations	715	638	638	145	137	137	4747	4012	4012
R-squared	0.336	0.534	0.534	0.381	0.765	0.765	0.123	0.533	0.533
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between the change in voting rights of the second largest shareholder and Capital Structure (Short Term Debt). Model (1)-(3) are the whole sample period from 1996 to 2010. Model (4)-(6) are the subsample period from 2008-2010. Model (7)-(9) are the full sample with the industry-country average change of the voting rights of the second largest shareholder as the test variable.§: In Model (1) to (3) lag Short Term Debt is *lagged one period of Short Term Debt*, while in Model (4) to (6) lag Short Term Debt is *the change of Short Term Debt from 1996 to 2008*. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 11
Power of the Second Large Shareholder and Operation Management

VARIABLES	(1) Inventory	(2) Inventory	(3) Inventory	(4) Inventory	(5) Inventory	(6) Inventory	(7) Inventory	(8) Inventory	(9) Inventory
ΔVote1	0.145***	0.023*		0.097**	0.142***				
	(6.67)	(1.70)		(2.12)	(2.78)				
ΔVote2	-0.152***	-0.028***	-0.022**	-0.154***	-0.203***	-0.163***			
	(-8.70)	(-2.59)	(-2.12)	(-4.19)	(-5.61)	(-4.60)			
ΔExcess1			-0.005			-0.123**			
			(-0.36)			(-2.47)			
Industry-Country Average of ΔVote1							-0.113***	-0.015	
							(-4.45)	(-1.24)	
Industry-Country Average of ΔVote2							-0.092***	-0.006	-0.008
							(-8.52)	(-1.20)	(-1.57)
Industry-Country Average of ΔExcess1									0.001
									(0.07)
Lag Firm Size		-0.101	-0.215		-1.067	-2.569***		0.02	0.031
		(-0.63)	(-1.28)		(-1.57)	(-4.04)		(0.33)	(0.52)
Lag Leverage		-1.401*	-1.236		-3.146	0.345		-0.258	-0.234
		(-1.68)	(-1.49)		(-0.62)	(0.07)		(-0.63)	(-0.57)
Lag Sales Growth		-0.584	-0.595		1.265	0.922		0.367*	0.373*
		(-1.52)	(-1.54)		(0.86)	(0.62)		(1.76)	(1.79)
Lag Capital Expenditure		-2.174	-2.397		17.15	19.07		-1.918	-1.882
		(-1.01)	(-1.12)		(1.37)	(1.50)		(-1.50)	(-1.47)
Lag Inventory§		0.852***	0.860***		0.466***	0.462***		0.895***	0.895***
		(38.48)	(39.70)		(3.31)	(3.26)		(124.27)	(124.29)
Constant	-1.67	0.944	2.707	11.446*	30.169***	41.541***	14.964***	1.700	2.988*

	(-0.51)	(0.41)	(1.13)	(1.67)	(3.18)	(4.18)	(4.66)	(1.03)	(1.77)
Observations	765	679	679	158	147	147	4703	4025	4025
R-squared	0.492	0.864	0.863	0.651	0.728	0.724	0.164	0.834	0.834
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between the change in voting rights of the second largest shareholder and Operation Management. Model (1)-(3) are the whole sample period from 1996 to 2010. Model (4)-(6) are the subsample period from 2008-2010. Model (7)-(9) are the full sample with the industry-country average change of the voting rights of the second largest shareholder as the test variable.§: In Model (1) to (3) lag Inventory is *lagged one period of Inventory*, while in Model (4) to (6) lag Inventory is *the change of Inventory from 1996 to 2008*. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 12
Power of the Second Large Shareholder and Dividends Payout Ratio

VARIABLES	(1) payoutratio	(2) payoutratio	(3) payoutratio	(4) payoutratio	(5) payoutratio	(6) payoutratio	(7) payoutratio	(8) payoutratio	(9) payoutratio
ΔVote1	0.000	0.001		0.002	0.003*				
	(0.36)	(1.01)		(1.18)	(1.78)				
ΔVote2	0.002***	0.001*	0.001**	0.004***	0.003***	0.003***			
	(3.62)	(1.84)	(2.05)	(3.40)	(3.09)	(3.47)			
ΔExcess1			0.001			0.007***			
			(0.96)			(4.57)			
Industry-Country Average of ΔVote1							-0.002***	-0.001	
							(-3.20)	(-1.51)	
Industry-Country Average of ΔVote2							0.001***	0.000	0.000
							(6.52)	(1.38)	(1.04)
Industry-Country Average of ΔExcess1									-0.000
									(-0.22)
Lag Firm Size		0.023**	0.024**		0.02	0.033*		0.013***	0.013***
		(2.58)	(2.55)		(0.94)	(1.80)		(5.27)	(5.38)
Lag Leverage		-0.140***	-0.137***		-0.13	0.001		-0.198***	-0.197***
		(-2.89)	(-2.83)		(-0.84)	(0.01)		(-11.51)	(-11.39)
Lag Sales Growth		0.009	0.008		-0.006	-0.007		0.001	0.001
		(0.39)	(0.37)		(-0.13)	(-0.17)		(0.14)	(0.16)
Lag Capital Expenditure		0.08	0.073		0.632	0.35		0.091*	0.093*
		(0.64)	(0.58)		(1.62)	(0.96)		(1.71)	(1.75)
Lag Payoutratio§		0.394***	0.395***		0.517***	0.511***		0.457***	0.458***
		(11.09)	(11.15)		(8.74)	(9.23)		(33.57)	(33.67)
Constant	0.387***	-0.084	-0.209*	-0.243	-0.347	-0.702**	0.227***	-0.176**	-0.198**

	(5.38)	(-0.65)	(-1.67)	(-1.01)	(-1.19)	(-2.45)	(3.29)	(-2.11)	(-2.37)
Observations	852	754	754	170	161	161	5206	4430	4430
R-squared	0.281	0.442	0.442	0.503	0.713	0.749	0.113	0.356	0.355
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between the change in voting rights of the second largest shareholder and Dividends Payout Ratio. Model (1)-(3) are the whole sample period from 1996 to 2010. Model (4)-(6) are the subsample period from 2008-2010. Model (7)-(9) are the full sample with the industry-country average change of the voting rights of the second largest shareholder as the test variable.§: In Model (1) to (3) lag Dividends Payout Ratio is *lagged one period of Dividends Payout Ratio*, while in Model (4) to (6) lag Dividends Payout Ratio is *the change of Dividends Payout Ratio from 1996 to 2008*. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 13
Industry-Country Average of ΔVote2 with the Sample of Firms that Exist in Both 1996 and 2008

VARIABLES	(1) Tobin's Q	(2) Tobin's Q	(3) Tobin's Q	(4) ROA	(5) ROA	(6) ROA	(7) ROE	(8) ROE	(9) ROE
Industry-Country Average of ΔVote1	-0.000	-0.000		0.009	-0.004		-0.001	-0.025	
	(-0.31)	(-0.06)		(0.66)	(-0.30)		(-0.07)	(-1.38)	
Industry-Country Average of ΔVote2	0.007***	0.001*	0.001**	0.052***	0.030***	0.031**	0.078***	0.037**	0.036**
	(4.24)	(1.70)	(2.12)	(4.20)	(2.64)	(2.57)	(4.63)	(2.28)	(2.24)
Industry-Country Average of ΔExcess1			0.003**			0.024			0.025
			(2.11)			(1.00)			(0.77)
Lag Firm Size		-0.010	-0.008		-0.293**	-0.280**		-0.303*	-0.289*
		(-1.23)	(-1.24)		(-2.28)	(-2.38)		(-1.92)	(-1.82)
Lag Leverage		0.025	0.035		-3.138***	-3.024***		-5.297***	-5.057***
		(0.36)	(0.77)		(-2.60)	(-3.46)		(-4.43)	(-4.22)
Lag Sales Growth		-0.017	-0.018		0.178	0.169		0.053	0.052
		(-0.73)	(-0.92)		(0.44)	(0.47)		(0.11)	(0.11)
Lag Capital Expenditure		0.008	0.017		0.894	0.998		1.650	2.004
		(0.05)	(0.14)		(0.34)	(0.45)		(0.55)	(0.67)
Lag Tobin's Q		0.744***	0.741***						
		(24.82)	(49.02)						
Lag ROA					0.375***	0.375***			
					(9.21)	(17.12)			
Lag ROE								0.402***	0.402***
								(18.26)	(18.28)
Constant	1.299***	0.039	0.156	3.862**	4.798	4.319	0.699	4.417	3.487
	(9.97)	(0.40)	(1.17)	(2.00)	(1.51)	(1.50)	(0.21)	(1.14)	(0.89)
Observations	2,279	2,034	2,034	2,269	2,042	2,042	2,281	2,038	2,038

R-squared	0.211	0.654	0.655	0.168	0.319	0.320	0.136	0.318	0.317
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between Industry-Country Average of Change in Voting Power of Second Large Shareholder and Tobin's Q, ROA, and ROE. We are using the whole sample period from 1996 to 2010. Model (1)-(3) are testing the relationship between Industry-Country Average of Change in Voting Power of Second Large Shareholder and Tobin's Q; Model (4)-(6) are testing for ROA; Model (7)-(9) are testing for ROE. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 13 (Continued)
Industry-Country Average of ΔVote2 with the Sample of Firms that Exist in Both 1996 and 2008

VARIABLES	(10) Sdebt	(11) Sdebt	(12) Sdebt	(13) Ldebt	(14) Ldebt	(15) Ldebt
Industry-Country Average of ΔVote1	0.002***	0.001		-0.000	-0.000	
	(2.66)	(1.09)		(-0.45)	(-0.01)	
Industry-Country Average of ΔVote2	-0.001*	-0.001	-0.001*	0.002***	0.001*	0.001**
	(-1.73)	(-1.49)	(-1.71)	(2.90)	(1.93)	(2.01)
Industry-Country Average of ΔExcess1			-0.001			0.001
			(-0.63)			(0.56)
Lag Firm Size		-0.018***	-0.019***		0.017***	0.017***
		(-4.02)	(-4.03)		(3.73)	(3.76)
Lag Leverage		-0.097***	-0.100***		0.094***	0.096***
		(-2.94)	(-3.02)		(2.85)	(2.90)
Lag Sales Growth		0.014	0.015		-0.012	-0.013
		(1.06)	(1.09)		(-0.91)	(-0.94)
Lag Capital Expenditure		-0.214***	-0.220***		0.208**	0.209**
		(-2.61)	(-2.70)		(2.55)	(2.57)
Lag Short term debt		0.616***	0.618***			
		(32.80)	(32.93)			
Lag Long term debt					0.632***	0.632***
					(34.80)	(34.79)
Constant	0.633***	0.621***	0.637***	0.349***	-0.203**	-0.217**
	(6.10)	(5.60)	(5.70)	(3.32)	(-2.03)	(-2.11)
Observations	2,068	1,841	1,841	2,120	1,893	1,893
R-squared	0.202	0.543	0.543	0.205	0.553	0.553
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between Industry-Country Average of Change in Voting Power of Second Large Shareholder and capital structure. We are using the whole sample period from 1996 to 2010. Model (10)-(12) are testing the relationship between Industry-Country Average of Change in Voting Power of Second Large Shareholder and Long term debt; Model (13)-(15) are testing for Short term debt. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 13 (Continued)
Industry-Country Average of ΔVote2 with the Sample of Firms that Exist in Both 1996 and 2008

VARIABLES	(16) payoutratio	(17) payoutratio	(18) payoutratio	(19) inventory	(20) inventory	(21) inventory
Industry-Country Average of ΔVote1	0.000	-0.000		-0.031	0.003	
	(0.88)	(-0.23)		(-1.27)	(0.28)	
Industry-Country Average of ΔVote2	0.001***	0.000	0.000	-0.119***	-0.012	-0.012
	(3.05)	(0.59)	(0.64)	(-5.91)	(-1.37)	(-1.34)
Industry-Country Average of ΔExcess1			0.001			0.008
			(1.10)			(0.44)
Lag Firm Size		0.007*	0.008**		0.014	0.018
		(1.94)	(2.05)		(0.16)	(0.20)
Lag Leverage		-0.173***	-0.170***		0.282	0.299
		(-6.27)	(-6.13)		(0.46)	(0.49)
Lag Sales Growth		-0.001	-0.001		-0.196	-0.201
		(-0.09)	(-0.12)		(-0.75)	(-0.77)
Lag Capital Expenditure		-0.011	-0.008		-1.329	-1.338
		(-0.16)	(-0.11)		(-0.85)	(-0.85)
Lag Payoutratio		0.476***	0.476***			
		(23.94)	(23.92)			
Lag Inventory					0.913***	0.914***
					(91.91)	(91.87)
Constant	0.144**	-0.135	-0.151	2.427	1.338	3.379*
	(2.15)	(-1.43)	(-1.60)	(0.64)	(0.76)	(1.96)
Observations	2,299	2,052	2,052	2,019	1,800	1,800
R-squared	0.154	0.386	0.386	0.249	0.876	0.876
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between Industry-Country Average of Change in Voting Power of Second Large Shareholder and Dividends payout ratio and Operation management. We are using the whole sample period from 1996 to 2010. Model (16)-(18) are testing the relationship between Industry-Country Average of Change in Voting Power of Second Large Shareholder and Dividends payout ratio; Model (19)-(21) are testing for Inventory. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 14
Change of Relative Power as the Test Variable

VARIABLES	(1) Tobin's Q	(2) Tobin's Q	(3) ROA	(4) ROA	(5) ROE	(6) ROE
Change of Relative Power	0.297***	0.070	3.075***	1.932**	4.820***	2.875***
	(3.91)	(1.45)	(3.71)	(2.45)	(4.29)	(2.65)
Lag Firm Size		-0.018		-0.464*		-0.528
		(-1.14)		(-1.71)		(-1.48)
Lag Leverage		0.209*		-1.359		-2.893
		(1.70)		(-0.56)		(-1.32)
Lag Sales Growth		-0.016		0.832		0.828
		(-0.46)		(0.98)		(0.84)
Lag Capital Expenditure		-0.431*		-1.780		-1.883
		(-1.81)		(-0.41)		(-0.34)
Lag Tobin's Q		0.765***				
		(18.31)				
Lag ROA				0.405***		
				(5.78)		
Lag ROE						0.414***
						(11.47)
Constant	1.430***	0.193	8.014***	8.928**	10.863***	10.829**
	(11.60)	(1.01)	(4.66)	(2.30)	(4.70)	(2.07)
Observations	849	751	839	750	846	749
R-squared	0.358	0.742	0.279	0.416	0.254	0.413
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between the Change of Relative Power of the Second Large Shareholder and Tobin's Q, ROA, and ROE. We are using the whole sample period from 1996 to 2010. We require that there should be at least one large shareholder with voting rights of no smaller than 10% in 2008. Model (1)-(2) are testing the relationship between Change of Relative Power of the Second Large Shareholder and Tobin's Q; Model (3)-(4) are testing for ROA; Model (5)-(6) are testing for ROE. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

Table 14 (Continued)
Change of Relative Power as the Test Variable

VARIABLES	(7) Sdebt	(8) Sdebt	(9) Ldebt	(10) Ldebt	(11) Payoutratio	(12) Payoutratio	(13) Inventory	(14) Inventory
Change of Relative Power	-0.040	-0.036	0.096**	0.059*	0.104***	0.037	-5.075***	-0.792*
	(-1.01)	(-1.02)	(2.57)	(1.72)	(4.02)	(1.50)	(-6.47)	(-1.80)
Lag Firm Size		-0.022*		0.018		0.015*		-0.080
		(-1.82)		(1.53)		(1.79)		(-0.56)
Lag Leverage		-0.006		0.027		-0.136***		-1.260
		(-0.09)		(0.42)		(-2.80)		(-1.51)
Lag Sales Growth		-0.014		0.019		0.008		-0.590
		(-0.48)		(0.64)		(0.36)		(-1.53)
Lag Capital Expenditure		-0.071		0.057		0.057		-2.121
		(-0.47)		(0.38)		(0.46)		(-0.99)
Lag Short term debt		0.546***						
		(15.21)						
Lag Long term debt				0.544***				
				(15.43)				
Lag Payoutratio						0.401***		
						(11.35)		
Lag Inventory								0.866***
								(40.76)
Constant	0.542***	0.559***	0.483***	-0.048	0.272***	-0.065	18.677***	4.875**
	(7.98)	(3.19)	(7.17)	(-0.28)	(5.03)	(-0.55)	(11.51)	(2.24)
Observations	715	638	736	658	852	754	765	679
R-squared	0.324	0.529	0.356	0.545	0.281	0.439	0.460	0.863
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table presents the relationship between the Change of Relative Power of the Second Large Shareholder and capital structure, dividends payout ratio and operation management. We are using the whole sample period from 1996 to 2010. We require that there should be at least one large shareholder with voting rights of no smaller than 10% in 2008. Model (7)-(8) are testing the relationship between Change of Relative Power of the Second Large Shareholder and Short term debt; Model (9)-(10) are testing for Long term debt; Model (11)-(12) are testing for Payout ratio; Model (13)-(14) are testing for Inventory. T-statistics are included in parentheses, *** p<0.01, ** p<0.05, * p<0.1.